



## **Doing Business in Afghanistan**

### **2013 Country Commercial Guide for U.S. Companies**

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## Chapter 1: Doing Business in Afghanistan

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### Market Overview

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- Afghanistan is transitioning from a state-based model to a free market economy as it continues to rebuild from nearly 30 years of conflict.

According to the International Monetary Fund (IMF), Afghanistan's real GDP growth during 2012 accelerated from 6 percent in 2011 to around 12 percent, reflecting a good harvest. After accelerating to double digits during 2011, inflation moderated during 2012, reaching 6 percent year on year. Net international reserves stand at US\$6.35 billion (approximately 7 months of imports). The exchange rate has depreciated by 6 percent during 2012 and has depreciated by another 6 percent since the beginning of 2013, though this depreciation is in line with other regional currencies. Deposits in the banking sector have stagnated at about 20 percent of GDP since 2010, and remain highly dollarized (65 percent), reflecting a continued lack of confidence. Credit to the private sector has remained steady since 2012, despite GDP growth, mostly for lack of sound lending opportunities and the general economic and political uncertainty.

- Illicit opium production remains a major activity, and the total farm-gate value of opium production alone accounted for four percent of GDP in 2012.
- The Government of Afghanistan (GIROA), with significant donor support, is improving the country's physical infrastructure and is committed to providing more basic services and humanitarian assistance to its growing population. The international community remains committed to Afghanistan's development, pledging more than \$67 billion at nine donors conferences between 2003 and 2010. In July 2012, donors at the Tokyo Conference pledged an additional \$16 billion in civilian aid through 2015, and sustaining support, through 2017, at or near levels of the past decade to respond to the fiscal gap as estimated by the World Bank and the Afghan Government. Despite this assistance, GIROA will need to overcome a number of challenges, including low revenue collection, anemic job creation, high levels of corruption, weak government capacity, and poor public infrastructure.
- The United States and other international donors have been responsible for a multi-billion dollar international effort to help reconstruct Afghanistan. Many, if not most, of the past business opportunities were linked to these reconstruction efforts. Now the economy is transitioning towards a market based economy, resulting in a shift towards private sector and GIROA opportunities for development and reconstruction.
- Throughout Afghanistan, corruption remains a persistent problem which increases the cost of doing business.

- GIRA has taken steps to create attractive conditions for foreign investment, but needs to continue working to reform its legal and regulatory framework.
- Doing business in Afghanistan is more difficult than in other countries in the region. In the World Bank's 2013 Doing Business Index, Afghanistan ranks 168 out of 185 economies in the ease of doing business.
- Currency reform was completed in early 2003; since then, the nominal exchange rate has oscillated between 45 and 56. The currency has steadily depreciated since the start of 2011, though other regional currencies have similarly depreciated. The tax code was restructured and clarified in 2005 and in 2009 GIRA passed the Income Tax Law. An unofficial translation of that law can be found [here](#). Customs tariffs have been rationalized, existing trade agreements are being renewed and new agreements entered into force.
- Comprehensive foreign direct investment (FDI) statistics for Afghanistan are unavailable. Figures, which are available, are not reliable because of inconsistencies in data collection. The United Nations 2011 World Investment Report estimated 2011 FDI flow into Afghanistan at \$83 million and total FDI stocks at \$1.475 million, representing 8 percent of GDP.
- Significant investment in Afghanistan comes from the United Arab Emirates, Canada, the United States, Turkey, Iran, China, Pakistan, India, and the United Kingdom.
- Both the current account (excluding aid) and trade account deficits widened marginally during 2012, financed through grants, though the imbalance has become gradually less severe since 2007 (from 70 percent of GDP in 2007 to an estimated 43 percent in 2012). While overall recorded trade has grown steadily in the past five years, trade as a percentage of GDP has fallen consistently in the past five years due to GDP growth. In the past five years, imports have been three to four times the size of exports. It should be noted, however, that official export figures are underestimated and do not account for opium. Continued inflows of grants have ensured that the overall current account has remained roughly flat over the past five years (ranging from -3 percent in 2010 to +4 percent in 2011).
- Afghanistan's top export markets are Pakistan, India, the United States, the European Union, Russia, and Iran. Imports primarily come from the United States, Pakistan, Russia, India, the European Union, the Central Asian Republics and China. Imports totaled \$5.154 billion in 2011 and are estimated to be \$6.39 billion in 2012. Exports in Afghanistan decreased to \$375.85 million in the fiscal year 2011-12 from \$388.50 million in the fiscal year 2010-11. Historically, from 2000 until 2012, Afghanistan exports averaged \$352.9 million, reaching an all-time high of 837.0 Million USD in March of 2001 and a record low of \$69.1 million in March of 2002. In Afghanistan, exports account for around 20 percent of GDP. Afghanistan's main exports are: carpets and rugs (45 percent of total exports); dried fruits (31 percent) and medicinal plants (12 percent). Main export partners are: Pakistan (48 percent of total exports), India (19 percent) and Russia (9 percent). Others include: Iran, Iraq, and Turkey.
- Afghanistan's history and location give it the potential to develop into a vital trade and transit hub for the region.

## Market Challenges

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- Afghanistan faces many market challenges which make it difficult to do business.
- Poor infrastructure, including limited access to power and transportation, is prevalent throughout the country.
- Afghanistan's weak legal framework, regulatory enforcement, and dispute resolution mechanisms make it difficult to resolve business disagreements in country.
- Corruption creates a serious challenge to doing business in Afghanistan.
- Foreign legal persons may not own land, and securing clear title to land is a long, time-consuming, expensive process.
- The commercial banking system provides limited commercial financing.
- Customs regulations and procedures are neither transparent nor consistent.
- The government and the private sector both face a shortage of skilled labor and trained personnel.
- Much of Afghanistan operates in a critical threat security situation.

## Market Opportunities

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- Business opportunities are largely driven by Afghanistan's need to renovate its infrastructure, which was weakened by years of war and neglect. Substantial opportunities for U.S. firms have typically been linked to military spending, donor and international finance institutions (IFIs), including the World Bank and Asian Development Bank, that fund reconstruction efforts. Companies are advised to monitor donor and IFI programs for current potential opportunities.
- As U.S. forces draw down and donor nation funding of infrastructure projects diminishes, business opportunities will be found within the Afghan private sector and through GIRA funded projects.
- The security economy generates significant demand for goods and services, equipment and operations and maintenance of the national army and police forces.
- Agriculture remains a strong market driver with significant opportunities in agribusiness, agriculture distribution, and infrastructure. Dried fruits, nuts, and seeds have overtaken carpets to account for half of total exports. However, Afghanistan's export of fresh produce accounts for only 6 percent of total trade due to Afghanistan's limited agriculture and food processing infrastructure, including a lack of cold and dry storage facilities.

In the past 5 years, services have contributed about half of GDP output. The most dynamic services subsectors include: information & communications, technology,

finance & insurance, and transport & construction. Although growth in the extractive industries sector was minimal, recent estimates of mineral deposits and natural resources ensure this sector will play a prominent role in Afghanistan's future economic growth.

Afghanistan is working to achieve compliant status in the Extractive Industries Transparency Initiative (EITI) by October 10, 2014. The Afghanistan Extractives Industries Transparency Initiative (AEITI), under the Afghan Ministry of Finance, is funded by the World Bank and the United Kingdom's Department for International Development (DFID). Should Afghanistan attain EITI compliance by the 2014 deadline, it will send a strong, positive signal to potential mining investors. The Ministry of Mines and Petroleum plans to offer several new minerals tenders, of varying scale, for bidding by investors over the next few years, following the long-awaited passage of an investor-friendly Minerals Law.

## **Market Entry Strategy**

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- Strong local knowledge is a vital part of business development in Afghanistan.
- Be familiar with key players both in business and in government.
- Visit the country, get to know your potential partners and their capabilities to do business with U.S. firms. Meet with local Chambers of Commerce especially the American Chamber of Commerce (AMCHAM), the Afghanistan Investment Support Agency (AISA) and the Export Promotion Agency of Afghanistan (EPAA). Many U.S. firms may find it beneficial to partner with a local firm which knows the region and can advise on security, and other issues of doing business in the region.
- Expect high costs associated with doing business in an insecure and volatile region.
- Before travel, U.S. citizens should review the Consular Information Sheet (Country Specific Information) and Travel Warning for Afghanistan. These documents can be found [here](#).
- Personal relationships are especially important in Afghanistan, and with the legal and regulatory framework still in a nascent stage, businesses are built almost entirely on the strength of the business relationships.

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## **Chapter 2: Political and Economic Environment**

For background information on the political and economic environment of the country, please click on the link below to the U.S. Department of State Background Notes.

[Background Note: Afghanistan](#)

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## Chapter 3: Selling U.S. Products and Services

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### Using an Agent or Distributor

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Many international companies find it invaluable to engage an Afghan individual or company as a local agent or partner. In many cases, local connections prove essential in navigating the business world. When looking for a partner, a good start is to contact the various trade associations that operate in Afghanistan, including the [American Chamber of Commerce in Afghanistan](#) (AmCham Afghanistan), the [Afghanistan Chamber of Commerce and Industries](#) (ACCI) and its U.S.–based affiliate, the [Afghan-American Chamber of Commerce](#) (AACC), and the [Afghanistan Builders Association](#) (ABA). The commercial section of the U. S. Embassy in Kabul can also provide assistance.

AACC, in conjunction with ACCI, the trade associations listed above and various Afghan government ministries, holds an annual matchmaking conference in the fall in the Washington, DC area. These organizations all have a wealth of local knowledge and contacts. The [Afghanistan Investment Support Agency](#) (AISA), a quasi-government agency focused on investment promotion, can also help make recommendations.

### Establishing an Office

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Afghanistan ranks an impressive 28 out of 185 countries in ease of starting a business, according to the World Bank's Doing Business Index 2013. The [Afghanistan Investment Support Agency](#) is a “one-stop shop for investors,” foreign and domestic, for registering and establishing a business in Afghanistan. AISA is mandated to carry out the legal processes (*i.e.* license) for all private businesses and investments in Afghanistan as well as to provide investors with assistance and the most up-to-date information on Afghanistan business and investment opportunities.

To operate a business legally in Afghanistan requires a business license. This license is awarded through AISA and is to be renewed annually. Certain industries, e.g. the health

sector, require an additional license from the responsible ministry. Both need to be obtained prior to starting business operations. AISA's website provides detailed information on both the AISA license as well as all other additional licenses.

AISA's Investor Support Department will assist the investor in determining whether or not a business requires an additional license and with the following procedures, which are necessary to obtain a business license:

1. Completion of the Investment Application Form and Application Form for Tax ID Number.
2. Registration of the Investment Application Form.
3. Provision of guidance on the requirements for submission of a business plan and review of the project documents to ensure it is within the country's legal framework.
4. Registration of investment documents in commercial court and announcement of investors' business/investment details in a reputable Afghan newspaper.
5. Payment of License Fee and Issuance of Investment License. (Fees are based on the type of business and are commensurate with the amount invested.)

To register, a company must first proceed to the [Ministry of Foreign Affairs](#) (MoFA) with an introductory letter from its embassy. The U.S. Embassy's Commercial Section can provide this letter upon provision of the following:

- Federal Tax ID Number on IRS Letterhead;
- Articles of Incorporation from the U.S. State the company is registered with;
- Short (one sentence) description of the business;
- Copy of Passport ID Page of President; Vice-President; and/or Country Representative.

The MoFA then sends the information to AISA to license the entity. Once the AISA forms are completed, information on the organization is also sent to the Afghanistan Central Business Registry (ACBR) for registration. The ACBR facilitates the registration of businesses, combining all of the functions previously performed by the Commercial Court, the [Ministry of Justice](#) (MoJ) and the [Ministry of Finance](#) (MoF). The ACBR issues the partner a tax identification number (TIN), registers the business and publishes the information in the Official Gazette of the MoJ. The partner receives a registration number from the ACBR which then allows AISA to issue the license.

The entire process takes about one to two weeks. Licensing fees range from USD \$100 to \$1000, depending on the size of initial investment.

If a business intends to engage in import/export, additional steps are required. In addition to the Investment License, the [Ministry of Commerce & Industries](#) (MoCI) will also issue an Export License. Although, MoCI is currently looking at revising this process, to obtain an Export License, the Ministry requests businesses to provide a bank statement and police verification from their country of domicile.



Other types of licenses may require police verification (sometimes referred to as a “criminal background check”) of a criminal records check confirming there are no records that an individual has been charged or convicted of a crime.

These are common and most police agencies in the U.S. are familiar with these requests. You should contact your local police department where you reside or last resided in the United States, request the police conduct a criminal records search and provide you with a document reflecting that there is no history of a criminal record.

For more information on criminal records checks, please look [here](#).

Non-profit/non-governmental organizations must also register with the Government of Afghanistan. To register, a non-profit must first proceed to the [MoFA](#) with an introductory letter from its embassy. The U.S. Embassy's Commercial Section can provide this letter upon provision of the following:

- Federal Tax ID Number on IRS Letterhead;
- Articles of Incorporation from the U.S. State the non-profit is registered with;
- Short (one sentence) description of the organization;
- Copy of Passport ID Page of President; Vice-President; and/or Country Representative.

That letter is then taken to the [Ministry of Economy](#) (MoEC) for registration of the non-profit/non-governmental organization.

There are no separate licensing procedures for joint ventures.

While AISA has the mandate to host business, trade, and investment events and conferences, as well as refer companies to potential partners, its services for sources of financing and opportunities in industrial parks are inadequate.

Establishing a physical office in Afghanistan can be challenging. Potential investors face an overheated real estate market with rents comparable to large U.S. or European cities. Renters are also required to pay a 20 percent renter's tax, which they must personally withhold from their monthly rent payment and remit to the Afghan Government. Foreign investors are not permitted to purchase real estate in Afghanistan (see Chapter 6 for more details). Basic infrastructure, such as electricity, remains a constant challenge.

The Industrial Parks Development Department within the Afghanistan Investment Support Agency (AISA) continues to support the development of Industrial parks throughout the country that offer clear land title, reliable power and water supply, and security. USAID has supported the development of 5 industrial parks in the past and is currently providing funding for the electrification of the Hisare-i-shahi (HIP) Industrial Park near Jalalabad. HIP will provide over 200 industrial sites when completed.

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While the establishment of brand-name businesses in Afghanistan could make a significant impact on improving the investment climate, U.S. and international franchises are currently entering Afghanistan only in limited cases. When those large firms do choose to enter this market, they will seek franchisees possessing high integrity,

business experience in the market, a history of success, ability to work well with a franchisor, retail experience, knowledge of the real estate market, and significant capital. This value chain experience is critical to maintaining brand quality.

Small and medium size franchise concepts may be more adaptable to the Afghan market. The U.S. Embassy encourages potential Afghan franchisees to contact the [International Franchise Association](#) to learn about franchise opportunities, attend trade shows such as the International Franchise Expo, and take advantage of their training programs.

### **Selling to the Government**

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GIRoA has established a procurement agency to facilitate the purchase of goods and services for the government. This agency, the [Afghanistan Reconstruction and Development Service](#) (ARDS), uses internationally recognized procurement procedures. Companies that wish to receive procurement notices can do so by registering through email at [ards.procurement@ards.org.af](mailto:ards.procurement@ards.org.af). Notices on new procurements are sent electronically to all companies registered with ARDS. ARDS also maintains a list of suppliers.

### **Distribution and Sales Channels**

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Formal distribution and sales channels are not well developed in Afghanistan. Most commerce is confined to small store fronts, markets and informal roadside trading, although some major distribution centers are Kabul, Herat, Mazar-e-Sharif, Jalalabad, and Kandahar. Many commercial goods destined for Afghanistan are shipped through ports in Karachi or Port Qasim, Pakistan, moved overland by rail or truck and enter the country via the Torkham (Nangarhar province) or Chaman (Kandahar province) border crossings. In addition, a significant amount of Afghanistan's imports pass through Hairatan, the country's third largest port, in northern Afghanistan. A 75 km rail link from Uzbekistan to Mazar-e-Sharif was completed in mid-2011. Goods are currently distributed throughout Afghanistan by truck. Another major overland route is through Iran via Bandar-i-Abbas, entering Afghanistan at the border with Herat province. Potential investors should remain aware of U.S. and international sanctions legislation targeting Iran that may impact shipping to Afghanistan via this route. More information is available at the website of the [Department of the Treasury's Office of Foreign Assets Control](#). There is no internal rail network in Afghanistan. Though a growing number of air cargo companies are offering their services, this sector is still undeveloped and expensive.

## **Selling Factors/Techniques**

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Due to limited understanding of English among Afghans, sales materials should be in Dari and/or Pashto. Direct marketing is a relatively unused sales technique because the postal system is largely defunct and land-line telephone connections are limited. Due to the low literacy rate, businesses may want to consider using radio or television advertising to reach potential clients. With a growing population of cellular users, currently reaching more than eighteen million, direct marketing via cellular phone is widespread. Electronic commerce, while still in the developmental stages, is growing rapidly on the basis of large-scale expansion of telecommunications infrastructure.

## **Trade Promotion and Advertising**

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The [Afghanistan Investment Support Agency](#), the quasi-government agency responsible for investment promotion, organizes trade promotion events. The [Export Promotion Agency of Afghanistan](#), the quasi-government agency responsible for export promotion, organizes export promotion events. The [Afghanistan Chamber of Commerce & Industries](#) also has a Trade and Investment Promotion Office.

Businesses in Afghanistan spend limited resources on advertising. Only a handful of Western-style advertising agencies exist. Commercial advertising is available through major television and radio outlets such as [Tolo TV](#), Ayna TV, [Shamshad TV](#), [Ariana TV](#), [1 TV](#), Radio Television Afghanistan, Radio Arman, Radio Khillid, Radio Salam Wastandar. Advertisements in newspapers reach a limited audience.

## **Pricing**

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Factors to consider in pricing are as follows:

- Corporate income tax of 20 percent; low by regional standards. Personal income tax ranges from 0-20 percent.
- Business Receipts Tax ranging from 2-10 percent, based on sector, revenue and, billing.
- Import tariffs in the range of 0-25 percent.
- High transport costs.
- Competition from cheap, low-quality goods and services from Pakistan, China and Iran.

## **Sales Service/Customer Support**

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Customers in Afghanistan are not accustomed to a high degree of sales service and customer support, with the possible exception of those who use mobile and internet service providers. However, appreciation for higher levels of service is increasing as the general population becomes more market savvy.

## **Protecting Your Intellectual Property**

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Afghanistan is working to bring its legislation on patents, trademarks, and copyrights into compliance with WTO standards. Currently, there is no serious enforcement of intellectual property rights. Investors should have no expectation of protection (see Chapter 6 for more information.)

Several general principles are important for effective management of intellectual property (“IP”) rights in Afghanistan. It is important to have an overall strategy to protect your IP. Your U.S. trademark and patent registrations will not protect you in Afghanistan. There is no such thing as an “international copyright” that will automatically protect an author’s writings throughout the entire world. Protection against unauthorized use in a particular country depends, basically, on the national laws of that country. However, most countries do offer copyright protection to foreign works under certain conditions, and these conditions have been greatly simplified by international copyright treaties and conventions.

Registration of patents and trademarks is on a first-in-time, first-in-right basis, so you should consider applying for trademark and patent protection even before selling your products or services in the Afghan market. It is vital that companies understand that intellectual property is primarily a private right and the U.S. Government generally cannot enforce rights for private individuals in Afghanistan. It is the responsibility of the rights’ holders to register, protect, and enforce their rights where relevant, retaining their own counsel and advisors. Companies may wish to seek advice from local attorneys or IP consultants who are experts in Afghan law. The U.S. Embassy provides a list of local lawyers [here](#).

While the USG stands ready to assist, there is little that can be done if the rights holders have not taken these fundamental steps necessary to securing and enforcing their IP in a timely fashion. Moreover, in many countries, rights holders who delay enforcing their rights on a mistaken belief that the USG can provide a political resolution to a legal problem may find that their rights have been eroded or abrogated due to legal doctrines such as statutes of limitations, laches, estoppel, or unreasonable delay in prosecuting a lawsuit. In no instance should USG advice be seen as a substitute for the obligation of a rights holder to promptly pursue its case.

It is always advisable to conduct due diligence on potential partners. Negotiate from the position of your partner and give your partner clear incentives to honor the contract. A good partner is an important ally in protecting IP rights. Consider carefully, however, whether to permit your partner to register your IP rights on your behalf. Doing so may create a risk that your partner will list itself as the IP owner and fail to transfer the rights should the partnership end. Keep an eye on your cost structure and reduce the margins (and the incentive) of would-be bad actors. Projects and sales in Afghanistan require constant attention. Work with legal counsel familiar with Afghanistan laws to create a solid contract that includes non-compete clauses, and confidentiality/non-disclosure provisions.

It is also recommended that small and medium-size companies understand the importance of working together with trade associations and organizations to support efforts to protect IP and stop counterfeiting. There are a number of these organizations, both Afghan and U.S.-based. These include:

- The U.S. Chamber and local American Chambers of Commerce

- National Association of Manufacturers (NAM)
- International Intellectual Property Alliance (IIPA)
- International Trademark Association (INTA)
- The Coalition Against Counterfeiting and Piracy
- International Anti-Counterfeiting Coalition (IACC)
- Pharmaceutical Research and Manufacturers of America (PhRMA)
- Biotechnology Industry Organization (BIO)

## IP Resources

A wealth of information on protecting IP is freely available to U.S. rights holders. Some excellent resources for companies regarding intellectual property include the following:

- For information about patent, trademark, or copyright issues -- including enforcement issues in the US and other countries -- call the STOP! Hotline: **1-866-999-HALT** or register at [www.StopFakes.gov](http://www.StopFakes.gov).
- For more information about registering trademarks and patents (both in the U.S. as well as in foreign countries), contact the U.S. Patent and Trademark Office (USPTO) at: **1-800-786-9199**.
- For more information about registering for copyright protection in the U.S., contact the U.S. Copyright Office at: **1-202-707-5959**.
- For more information about how to evaluate, protect, and enforce intellectual property rights and how these rights may be important for businesses, a free online training program is available at [www.StopFakes.gov](http://www.StopFakes.gov).
- For U.S. small and medium-size companies, the Department of Commerce offers a "SME IP Advisory Program" available through the American Bar Association that provides one hour of free IP legal advice for companies with concerns in numerous countries including Brazil, China, Egypt, India, and Russia (but not Afghanistan). For details and to register, visit: [here](#).
- For information on obtaining and enforcing intellectual property rights and market-specific IP Toolkits visit: [www.StopFakes.gov](http://www.StopFakes.gov). This site is linked to the USPTO website for registering trademarks and patents (both in the U.S. as well as in foreign countries), the U.S. Customs & Border Protection website to record registered trademarks and copyrighted works (to assist customs in blocking imports of IP-infringing products) and allows you to register for Webinars on protecting IP.

## Due Diligence

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It is essential to conduct adequate due diligence on potential local partners before entering into business in Afghanistan. As the country currently has no contracts law in place and the commercial court system is inadequate, businesses should tread carefully when entering into commercial agreements or partnerships. The Afghan Government enacted arbitration and mediation laws in January 2007. The MoCI, Ministry of the

Interior (MoI), AISA, The Afghan National Police, and the courts have all played roles in recent disputes involving Americans. If involved in a commercial dispute, hiring an Afghan attorney early can be beneficial. Visiting the country to learn more about the business environment and the potential partner is recommended.

The [Afghanistan Chamber of Commerce & Industries](#) (ACCI) and the [Afghanistan Investment Support Agency](#) (AISA) can be helpful in providing background on a potential partner. In addition, there are local attorneys who specialize in business and commerce that can be contacted for assistance. Please contact the U.S. Embassy Commercial Section for that listing. Additionally, the U.S. Embassy provides a list of local lawyers [here](#).

### **Local Professional Services**

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The Embassy of Afghanistan in Washington, DC has developed a resource listing services available to facilitate investment, but it was last updated in 2009. The guide can be found [here](#).

[Peace Dividend Trust](#) (PDT), a non-governmental organization (NGO), maintains a [business portal](#) with approximately 6,500 licensed, screened and verified Afghan-owned businesses. PDT services also include business matchmaking activities; tender distribution by e-mail, SMS alerts and office visits; training on procurement processes and market information and advocacy in support of the Afghan First initiative.

### **Working as a Contractor**

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Afghan law stipulates broadly that any individual or company that earns income in Afghanistan must pay taxes in accordance with the law (see Article 42 of the Constitution and Article 2 of the 2009 Income Tax Law). A number of bilateral agreements in place provide tax and customs exemptions for U.S. Government (USG) personnel, contractors, and subcontractors. Regardless, USG contractors operating in Afghanistan must follow applicable Afghan registration procedures (see “Establishing an Office” section earlier in this chapter.).

Although the registration requirements are generally uniform for all entities operating in Afghanistan, tax exemptions based on bilateral agreements differ depending on which USG department or agency is the contracting entity and whether there is an agreement with the Afghan Government applicable to the activities of that USG department or agency. The general information provided here is only a guide and cannot substitute for specific registration and tax advice pertaining to each firm. The U.S. Embassy is prohibited from giving direct tax advice to private firms. The USG expects each of its implementing partners, including contractors and subcontractors, to obtain competent advice from appropriate sources regarding their obligations under Afghan law and to comply with those obligations. It is important to note that no firm will be completely exempt from all tax-related requirements. Even firms exempt from taxation under agreements pertaining to security and development assistance contracts must demonstrate to the [Ministry of Finance](#) their eligibility for the relevant exemption.



Non-profit/non-governmental organizations (NGOs) working in Afghanistan may want to consider if Afghanistan's NGO Law provides tax or other exemptions for their operations. The [NGO Department of the Ministry of Economy](#) has responsibility for all NGOs operating in country. Article 30 of the [NGO Law](#) relates to tax exemptions.

Questions related to tax exemptions and problems encountered with registration and the collection or payment of taxes when exemptions apply should be immediately brought to the attention of contracting officers.

**Tax Exemptions for U.S. Department of Defense (DOD) Contractors:** An exchange of diplomatic notes concluded in 2003 constitutes the Status of Forces Agreement (SOFA) applicable to the U.S. Department of Defense (DOD), including U.S. Forces-Afghanistan (USFOR-A). It establishes exemptions for contractors and subcontractors carrying out work for U.S. Forces-Afghanistan. The SOFA provides that DOD "its military and civilian personnel, contractors and contractor personnel shall not be liable to pay any tax or similar charge assessed within Afghanistan." It also provides that DOD "contractors and contractor personnel may import into, export out of, and use in the Republic of Afghanistan any personal property, equipment, supplies, materials, technology, training or services required to implement this agreement. Such importation, exportation and use shall be exempt from any inspection, license, other restrictions, customs duties, taxes or any other charges assessed within Afghanistan." Further, the SOFA provides that "[a]cquisition of articles and services in the Republic of Afghanistan by or on behalf of the [DOD] in implementing this agreement shall not be subject to any taxes, customs duties or similar charges in Afghanistan." DOD interprets this language to mean that all purchases by or on behalf of DOD are fully tax- and duty-exempt and that DOD contractors, subcontractors, and their non-Afghan employees are exempt from all Afghan taxes and duties. DOD's contractor taxation fact sheet can be found [here](#).

The following are links to DOD websites to provide guidance on taxation to DoD contractors providing goods and services in Afghanistan:

Guidance to contractors on how to file for tax exempt status with the Ministry of Finance.  
<https://www2.centcom.mil/sites/contracts/Pages/GCP.aspx>

DoD's guidance dated January 21, 2013 on tax exemptions under Dip Note 202 and the MTA for contractors and subcontractors.  
<https://www2.centcom.mil/sites/contracts/Tax%20Exemption%20for%20Afghanistan%20Ministry%20of%20Finance/HCA%20Bulletin%2013-02%20Taxation%20of%20DoD%20Contractors%20performing%20in%20Afg.pdf>

DOD fact sheet for contractors concerning questions on taxation under the Status of Forces Agreements in Afghanistan and Iraq.  
[http://www.acq.osd.mil/dpap/pacc/cc/docs/Contractors\\_in\\_Afgh-Iraq-Assistance\\_in\\_Responding\\_to\\_Qs\\_RE\\_Taxation\\_under\\_Resective\\_SOFAs.pdf](http://www.acq.osd.mil/dpap/pacc/cc/docs/Contractors_in_Afgh-Iraq-Assistance_in_Responding_to_Qs_RE_Taxation_under_Resective_SOFAs.pdf)

The following links are MoF guidance on how contractors who provide goods and services under our bilateral agreements should file for tax exempt status for their contracts, in addition to the 2009 Income Tax Law, tax forms, and other resources for potential tax payers:

<http://ard.gov.af/index.php/2012-06-04-16-53-00/taxpayer-guides>

2009 Income Tax Law, most recent law that covering taxation:

<http://ard.gov.af/index.php/2012-06-04-16-53-00/resources>

Various tax forms for contractors and businesses:

<http://ard.gov.af/index.php/2012-06-04-16-53-00/taxpayer-forms>

**International Security Assistance Forces (ISAF) Contractors:** NATO's ISAF contractors operate under the Military Technical Agreement (MTA), which provides some exemptions. Please note that the MTA is not the same as the bilateral U.S.-Afghanistan SOFA and therefore provides a different exemption framework. A U.S. company contracting with ISAF would receive the benefit of the MTA's exemptions.

**Tax Exemptions for USAID Contractors:** USAID has four over-arching Strategic Objective Grant Agreements (SOAGs) with GIRA that encompass all of the programs USAID finances in Afghanistan. For detailed information on USAID-related tax policy, please see [here](#).

**Tax Exemptions for Department of State Contractors:** The Department of State's Bureau of International Narcotics and Law Enforcement (INL) has negotiated agreements on tax exemption. Contractors should consult their contracting officer to determine applicable tax exemptions.

## Web Resources

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Afghan Ministry of Commerce & Industries (MoCI)	<a href="http://www.commerce.gov.af/">http://www.commerce.gov.af/</a>
Afghan Ministry of Economy (MoEC)	<a href="http://www.moec.gov.af/index_eng.aspx">http://www.moec.gov.af/index_eng.aspx</a>
Afghan Ministry of Finance (MoF)	<a href="http://www.mof.gov.af/">http://www.mof.gov.af/</a>
Afghan Ministry of Foreign Affairs (MoFA)	<a href="http://www.mfa.gov.af/">http://www.mfa.gov.af/</a>
Afghan Ministry of Justice (MoJ)	<a href="http://www.moj.gov.af/">http://www.moj.gov.af/</a>
Afghan-American Chamber of Commerce (AACC)	<a href="http://www.a-acc.org/">http://www.a-acc.org/</a>
Afghan-California Business Council (ACBC)	<a href="http://www.acbconline.com/">http://www.acbconline.com/</a>
Afghanistan Builders Association (ABA)	<a href="http://www.aba.af/">http://www.aba.af/</a>
Afghanistan Central Business Registry (ACBR)	<a href="http://www.acbr.gov.af/">http://www.acbr.gov.af/</a>
Afghanistan Chamber of Commerce and	<a href="http://www.acci.org.af/">http://www.acci.org.af/</a>



Industry (ACCI)

Afghanistan Investment Support Agency  
(AISA)

<http://www.aisa.org.af/>

Afghanistan Reconstruction and Development  
Service (ARDS)

<http://www.ards.gov.af/>

American Chamber of Commerce in  
Afghanistan (AmCham)

<http://www.amcham-af.org/>

Embassy of Afghanistan in Washington, DC

<http://www.embassyofafghanistan.org/>

Export Promotion Agency of Afghanistan  
(EPAA)

<http://www.epaa.org.af/>

International Franchise Association (IFA)

<http://www.franchise.org/>

Office of Foreign Assets Control (OFAC)

<http://www.treasury.gov/about/organizational-structure/offices/Pages/Office-of-Foreign-Assets-Control.aspx>

Peace Dividend Marketplace Afghanistan

<http://afghanistan.buildingmarkets.org/>

United Nations Development Program  
(UNDP)

<http://www.undp.org.af/>

World Bank Doing Business 2011 Report

<http://doingbusiness.org/data/exploreeconomies/afghanistan>

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## **Chapter 4: Leading Sectors for U.S. Export and Investment**

### **Commercial Sectors**

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### **Agricultural Sectors**

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- [Dairy Products](#)
- [Skins and Leather](#)
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- [Cotton and Sugar](#)
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Since 2003, U.S. and international donors have spent billions of dollars on construction projects throughout Afghanistan. This construction boom has created a dynamic local construction sector as many Afghans started construction firms. Afghan construction companies typically distinguish themselves as working in horizontal construction, such as roads, runways, and other paved surfaces, or vertical construction, such as hospitals, schools and other types of buildings. Many Afghan firms have worked as subcontractors for large U.S. and international subcontractors. Through this work, some Afghan construction firms have developed a history of job performance, as well as familiarity with English, and the U.S. as well as international construction methods and standards. [The Afghanistan Builders Association \(ABA\)](#) is a private sector association that represents Afghan construction firms. The ABA provides training, networking opportunities, and other events to connect the Afghan construction sector to international organizations and companies looking to work in Afghanistan.

Currently, U.S. spending is one of the major factors driving current construction demand in Afghanistan. U.S. government funded contracting opportunities for construction projects in Afghanistan can be found at the [FedBizOps](#) website. The U.S. Army Corp of Engineers provides information about their work in Afghanistan on their [Afghanistan Engineer District North](#) and [Afghanistan Engineer District South](#) websites. Firms interested in Afghanistan's construction sector should know, outside of projects undertaken through the [North Atlantic Treaty Organization](#), U.S. military funding for construction will decline sharply after the withdrawal of U.S. troops in 2014.

Outside of international donor funded construction, Afghanistan is in dire need of new or improved housing stock and other types of commercial construction. The majority of Afghans are not connected to the electrical grid and/or live in substandard housing. Additionally, Kabul is severely earthquake prone. However, many buildings in Kabul do not meet internationally accepted earthquake standards as Afghanistan does not have a codified building code. Ongoing economic growth in Afghanistan could drive growth in the domestic housing and commercial construction industries.

**Construction Materials**

Demand for all types of materials is booming and will remain strong through the next several years given the magnitude of the reconstruction process, a growing population, and rising income. Projects range from large-scale reconstruction of transportation, power and water infrastructure to small-scale retail and residential construction. International donor demands for high quality and quantity represent opportunities for both the export market and local investment. This sector offers perhaps the highest potential for both U.S. investment and exports.

Most available construction materials are currently imported and are of poor quality. Cement, for example, is primarily imported from Pakistan and Iran and is reportedly of such poor quality that it is considered not saleable in those countries. Afghanistan has high-quality limestone deposits, but just one active cement plant, and production does not begin to meet domestic demand.

High transportation costs, an abundance of raw materials, and a supply of local workers with adequate skills in this sector combine to offer promising opportunities for investment in local production that could underprice foreign rivals. The national market for materials is well integrated, with competitive wholesaling and retailing and established distribution channels. There is medium-term potential for local production for export as well, particularly in the marble and marble cutting industry, as Afghanistan's wealth of natural resources offers it a comparative advantage over neighboring countries. Profitable investment opportunities also exist in the manufacture of final construction inputs, such as doors or windows. Often these activities are carried out on a small scale, but many opportunities exist to expand to mass production.

### **Cement and Concrete Block**

Afghanistan is in an earthquake prone region. Demand for quality cement is high and is forecasted to remain strong, both in Afghanistan and in regional countries where industries are operating at capacity levels. Local conditions for the production of cement (i.e., adequate limestone) exist. Given the high transportation costs for this product, investment in locally produced cement has potential.

Concrete blocks are a popular local construction material. Upgrading and expanding existing production facilities or establishing new facilities offers good investment potential.

### **Bricks**

Baked and unbaked bricks are used for construction in Afghanistan. Both are produced by small, local enterprises. Given high transportation costs, there are business opportunities in the expansion and upgrade of local production facilities.

### **Doors and Windows**

Current local production of doors and windows uses obsolete technology and does not meet local demand. Investment opportunities exist in the improvement and expansion of this process.

### **Marble and Natural Stone**

There are substantial marble deposits within Afghanistan. Only a small fraction of what is mined is processed locally for construction or handicrafts. Most is exported to Pakistan, where it is cut into blocks and slabs. Investment in the local cutting process has high profit potential. The abundance of natural stone also offers potential in mining and processing. Some of Afghanistan's natural marble deposits are damaged by mining techniques such as blasting, which creates micro-cracks throughout the deposit. Extraction of marble by diamond blade cutting, the best practice, has begun, but it is still extremely limited.

### **Tiles**

The raw materials for the production of ceramic tiles and other ceramic products can be found in Afghanistan. High demand and prohibitive transportation costs represent great potential for investment in local production facilities.

### **Sand, Gravel and Aggregate**

Many production sites for sand, gravel, and aggregate are present. However, quality is mixed. Investment and U.S. export opportunities exist in upgrading the quality of production, equipment sales, and exploitation of new mining sites.

## **Asphalt**

Local asphalt production capacity does not meet the booming demand from large scale road construction and reconstruction activities. High profit potential exists in expansion of local production.

## **Telecommunications**

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Four private mobile telecommunications service providers currently supply the Afghan market with increased competition and price pressures. By early 2013, the number of mobile telephone subscriptions was estimated to be about 18 million, and the mobile telephone networks cover about 85 percent of the population. The reach of mobile telephony – where more than half of Afghan households have at least one mobile telephone – was achieved through private sector participation. The telecommunications revolution in Afghanistan has been one of the success stories of the country's recent past.

While there are still growth opportunities for mobile service providers, significant market opportunities exist in the other supply and service areas of the telecommunication sector, including data processing, basic business-processing operations, information and communication technology, data transfer and process control. Internet users are only about five percent of the population and services are limited to major urban areas, such as Kabul, Herat, and Mazar-e-Sharif.

Investments in the IT sector are particularly attractive as they often do not depend on the overall infrastructure of Afghanistan such as roads and airports, but investors can develop and rely on their own infrastructure such as satellite communication equipment.

## **Transportation and Logistics**

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Afghanistan has long been a trade hub connecting Asia, Europe and the Middle East. A landlocked country bordering Iran, Turkmenistan, Uzbekistan, Tajikistan, China and Pakistan, it is considered a “land bridge” connecting trading partners and offering a point of access to an expanded regional market of more than two billion people. In addition, this sector represents a vital support industry to other sectors which will not be able to achieve growth without an upgraded transportation and logistics industry.

Inadequate transportation infrastructure is a major obstacle to increased commerce. Road construction is a focus of the reconstruction effort. Major highway projects have been ongoing since 2002, including a nearly complete 2,400 km ring road circling the country and 700 km of links with neighboring countries. The Salang Tunnel, situated within Parwan Province, is considered among the most important stretches of road in all of Afghanistan. The 2.6km long tunnel has served as the major conduit for traffic traveling from Kabul to the northern provinces and beyond to Uzbekistan and Tajikistan since its construction in 1964. The reopening of the Salang Tunnel in 2002 was a major step forward in opening road links with northern Afghanistan. Bridges connect Afghanistan to Uzbekistan and Tajikistan, and a rail line runs from the Uzbek border through Naibabad to Mazar-e-Sharif, which is about 75 kilometers. The Asian Development Bank is funding a USD \$2.86 million 18 month feasibility study to expand the existing rail line. This study will analyze rail connectivity to Turkmenistan and

Tajikistan (Aqina-MeS-Avaych/Sherkhan Bandar). The rail construction is estimated to cost \$250-\$350 million. The Khaf to Herat rail project includes 76km of rail in Iran and 120km from the border to Herat. The phase from Iran to Rozanak, which consists of 62km in Afghanistan, is 70 percent complete. The remaining phase (Rozanak to Herat) is on hold due to lack of funding by Afghanistan.

The market for logistics and transportation services offers first mover advantage to prospective investors with little competition and steady demand. Early investors have reported modest start-up costs, relatively low overhead and high profit margins.

Opportunities exist in areas such as:

- Cold cargo and perishables storage
- Overland transportation
- Truck maintenance
- Customs facilitation
- Air freight and cargo services
- Package and document delivery
- Procurement and supply
- Warehousing

## **Mining and Power**

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The mining industry offers considerable growth potential for U.S. investment and export of technology. Afghanistan has a large quantity of known mineral resources as well as vast areas where the potential is unknown. Early exploration work indicates that Afghanistan possesses substantial mineral wealth (\$1-3 trillion dollars based on exploration of 10 percent of the country), but much work remains to be done to determine the economic feasibility of extraction. There is no doubt that the sector will play a leading role in the economy in years to come, as the government proceeds with ambitious plans to develop and market tenders. More information on Afghanistan's natural resources can be found [here](#).

Afghanistan's mineral resources include copper, iron, coal, uranium, chromite, zinc, lithium, rare earth minerals (REMs), gold, lead, silver and marble. The country's known precious and semi-precious minerals include lapis lazuli, emerald, ruby, tourmaline, sapphire, quartz, alabaster, amethyst, and beryl. While some of these materials are used in the handicrafts market, few of the reserves are being commercially exploited and there is room for expansion of this industry. A reconstruction boom is generating significant local demand for mineral-based construction materials, including marble, paving stones, cement and concrete blocks, bricks, gravel, wood, steel, sand, glass and tile. High transportation costs provide an advantage to locally produced products. Domestic energy needs remain unmet, despite coal deposits and natural gas. Afghanistan has a few producing oil and natural gas fields, but there is potential for much more as studies show significant geological upside potential in these producing areas.

The mining sector possesses medium to long term potential. Privatization of Afghanistan's State-Owned Enterprises (SOE), which control some of the country's

mining resources, such as coal, is not complete. The government of Afghanistan is making progress to improve capacity to effectively regulate its mineral and hydrocarbon resources sectors. Afghanistan is an Extractive Industries Transparency Initiative (EITI) candidate country and an EITI Secretariat has been established in the Ministry of Finance to oversee the EITI compliance process.

The market for U.S. technology, equipment, and expertise in this sector will be substantial.

## **Labor-intensive Manufacturing**

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Afghanistan is eager to establish a low-cost, labor-intensive manufacturing sector that can employ many Afghans. Industries suitable for investment are those that can first supply the local market and later become export products. The following manufactured products are all imported into Afghanistan, which indicates that there currently exists a market within the country:

- Bicycles
- Consumer goods
- Industrial and automotive tools and supplies
- Textiles, apparel and footwear

Afghanistan's major import partners are Pakistan, Russia, Uzbekistan, and Iran.

### **Carpets**

Carpets are still among Afghanistan's most important exports. The industry has a centuries-old tradition that enjoys world renown. Afghan carpets are internationally competitive, even with the challenges of a post-war economy—a reflection of the capabilities of generations of skilled Afghan weavers. The government places a high priority on the development of the carpet sector, particularly because of its importance as a source of income for the rural population, including women, and refugees.

Production is concentrated in several regions of the country. While some carpet factories have been established in urban centers in the last two years, production remains primarily home-based and fragmented. A lack of available and appropriate land has inhibited the development of consolidated production sites.

As few local post-weaving facilities exist, most Afghan carpets destined for overseas markets are exported as unfinished products to Pakistan to undergo the final steps of washing, trimming, and drying. The carpets are then exported from Pakistan as Pakistani products to overseas markets. This process amounts to millions of dollars in lost revenue for Afghanistan.

Hand-knotted Afghan carpets enjoy preferential access to important overseas markets. No customs duty is levied on their import into the United States, Canada, or the European Union.

The Afghan carpet industry offers high potential for investment, particularly in re-establishing those elements of the production chain that now take place outside the

country. It is estimated the value of sector exports could increase two to five times if goods were sold directly to foreign markets rather than through intermediaries.

#### **Post Weaving Facilities: Washing, Trimming, Finishing**

Facilities for washing, trimming, and finishing carpets are scarce in Afghanistan. The absence of such facilities has created a major bottleneck in the development of direct access to overseas markets. As a result, Pakistan-based middlemen dominate the carpet sector. The establishment of such facilities in Afghanistan represents the largest investment potential in this sector.

#### **Carpet Factories**

While a few carpet factories exist, the industry is still largely dependent on home production. The establishment of additional factories means increased productivity and increased quality control.

#### **Wool Scouring and Spinning**

Quality carpets require quality wool and yarn. While most producers of high quality carpets strive to exclusively use local, handspun wool, supply is insufficient to meet demand. Growing numbers of livestock in Afghanistan have created the potential for investment in additional wool scouring facilities. Spinning of high quality yarn, either from local or imported wool, also represents substantial opportunities.



## **Dried Fruits and Nuts**

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The world market for raisins, pistachios, dried apricots, almonds and walnuts is more than \$2.2 billion, of which Afghanistan currently claims less than 3 percent. Many of these products were formerly produced on a large scale and continue to enjoy international recognition for quality. Raisins, for example, are Afghanistan's primary agricultural export commodity and once accounted for 60 percent of the world's market. Pakistan, India, and Russia offer large, nearby markets in which Afghan products could begin regaining market share. Existing raisin processors are ripe for new investment to increase and improve production. Ideal growing conditions exist for almonds, pistachios, and apricots. The world's largest importers of these products - India for almonds and Russia for dried apricots – are natural regional markets. Low productivity of existing orchards and production facilities as well as a lack of machinery for sorting, drying, and packaging, are issues facing the industry.

## **Juices, Pastes, Jam**

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Local demand for fruit juices, jams and tomato paste is high. Industrially processed products available on the local market are almost entirely imported, primarily from Iran and Pakistan. The abundance of local fruits and tomatoes offers substantial business opportunities in import substitution. Afghan pomegranates are among the best in the world, so production of pomegranate concentrate for export has very good prospects.

## **Dairy Products**

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Most industrially processed and packaged dairy products are imported. Many regions in Afghanistan have a well-established dairy production tradition, particularly in yogurt, but lack the infrastructure to expand beyond local consumption. U.S. investments in collection, processing, packaging, and a cold storage and transportation chain have good prospects.

## **Skins and Leather**

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Karakul skins were formerly one of Afghanistan's major exports. With the number of livestock increasing, this industry has rebounded. Investment opportunities and potential for U.S. exports of machinery exist in skin processing and leather manufacturing.

## **Meat Processing**

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Existing meat processing facilities do not meet international standards. Given the increase in livestock, good opportunities exist for U.S. exports and investment in the upgrade of these facilities and equipment. U.S. exports of meat to Afghanistan reached \$31 million in 2011, accounting for just over half of all agricultural exports to the country, according to U.S. Department of Commerce data.

## **Cotton and Sugar**

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Afghanistan formerly produced substantial quantities of cotton and sugar (beet and cane) crops well suited to the climate of some regions of the country. Foreign investment has been involved in the rehabilitation of former state-owned enterprises in these areas as well as in greenfield operations. The Spinzar plant in Kunduz and the Balkh Gin and Press in Mazar-e-Sharif were privatized under a long term leasing agreement with cotton specialist Dagris of France. KWS of Germany has successfully invested in a joint venture sugar factory in Baghlan. Similar opportunities exist for interested investors.

## **Mills and Baking**

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Most baking and wheat processing activities currently are carried out on a very small scale. However, in large cities such as Kabul, Herat, Kunduz, Mazar-e-Sharif, and Kandahar, medium-scale commercial wheat mills are operating. There remain, however, substantial opportunities for expansion of the industry.

## **Non-traditional Products**

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Afghanistan has a number of native plants with unrealized commercial potential. Ideal climatic and ground conditions for many natural ingredients for the flavor, fragrance, and pharmaceutical industries exist. For example, conditions are ideal for the cultivation of roses and the production of rose oil. A number of spices, rare herbs and medicinal plants can also be found. Various market studies have demonstrated substantial possibilities in these areas.

## **Processing and Packaging**

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Most processing and packaging facilities currently in use for agricultural goods are technologically outdated. This sector represents attractive opportunities for investment and U.S. export of technology and equipment to crush, press, pasteurize, filtrate, dry, sort, grade, fill, and package a variety of agricultural products.

## **Cold Storage and Transportation**

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There are few cold storage facilities in Afghanistan. As the agro business sector strengthens and power and fuel supplies become more reliable, cold storage and cold transportation represent one area where U.S. investment and technology could achieve strong export growth and returns on investment.

## **Opportunities and Resources**

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This chapter draws largely on research, market evaluations and case studies conducted by the organizations listed below. Complete materials can be found on their websites.

[Afghan Investment Support Agency/](#)

*Investment opportunity brochures and market studies*

[Multilateral Investment Guarantee Agency](#)

*Investment Horizons: Afghanistan study*

[World Bank](#)

[Afghanistan Economic Update](#) and [World Bank Doing Business 2012](#) reports

[Afghanistan Research and Evaluation Unit](#)

*Market case studies in [raisins](#), [carpets](#) and [construction materials](#)*

Donors and international financial institution-funded activities in the sectors discussed in this chapter generate business opportunities for interested companies. Please consult the Project Financing section in Chapter 7 for more details on the activities of organizations such as USAID, World Bank and the Asia Development Bank and how firms can receive notification on procurements and contracting.

For other business opportunities for interested companies including investment events and trade shows please visit the event calendar at the Afghanistan Investment and Reconstruction Task Force website [here](#).

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## Chapter 5: Trade Regulations, Customs and Standards

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### Import Tariffs

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Afghanistan maintains the lowest import tariffs in the region. During the years 2011-2012 Afghanistan introduced several amendments into national tariff schedule and increased tariff rates for more than 100 tariff lines (mostly on vehicles, fruits and vegetables, juices, carpets.).

The simple average tariff in 2011 and 2012 increased to 6.0 percent compare to 5.6 percent in 2010. In 2011, the average weighted rate was 7.4 percent and in 2012 average weighted tariff rate dropped to 6.6 percent as a result of the decrease of importation of vehicles, where high tariff rates were introduced.

In 2012, the number of tariff bands with tariff rate higher than 0 percent was 13 and was simplified to the following:

#	Tariff Bands	Products description	Share in Total Imports
0	0.0%	Chemicals	0.99%
1	1.0%	Raw materials	1.14%
2	2.5%	Machinery equipment, essential goods	24.70%
3	3.5%	Cooking oil	0.00%
4	5.0%	Meat, fish, construction materials, chemicals	42.62%
5	8.0%	Kerosene and mineral fuel	3.33%
6	10.0%	Food, textile, home appliances	10.49%
7	12.0%	Gasoline for vehicles	12.69%
8	16.0%	Fruits/vegetables/nuts	0.55%
9	20.0%	Water, beverages, juices, marble, furniture	1.68%
10	25.0%	Fruits and vegetables	0.62%
11	35.0%	New vehicles	0.37%

12	40.0%	Used vehicles	0.62%
13	50.0%	Luxury vehicles	0.18%
		TOTAL:	100%

Even at these revised tariff rates, Afghan tariffs will remain the lowest in the region, compared with average tariff rates in Pakistan of 13 percent, India, 13 percent and Tajikistan, 11 percent.

For almost 70 percent of total imports coming to Afghanistan the import duties assigned are not higher than 5 percent. Another 25 percent of imports are coming to Afghanistan with applied import duties in the range of 8 percent - 12 percent. Tariff rates of higher than 15 percent is applied only on about 5 percent of total imports to Afghanistan.

## Trade Barriers

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Afghanistan has few trade barriers for imported products. However, issues including security, transit trade, infrastructure (electricity, roads, water/sewage treatment), skilled labor and corruption adversely affect market access. The IFC 2013 Doing Business Report ranks Afghanistan 178 out of 185 in trading across borders.

## Import Requirements and Documentation

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All imported goods and products must have an original bill of lading, commercial invoice, and packing list. Transit permission is required for shipments transiting through Pakistan; the Transit Department at the Ministry of Commerce and Industries (MoCI) oversees transit permission. Importers and exporters must consider whether supporting documentation should be sought from 'interested' Ministries prior to Customs declaration; e.g., armored vehicles require Ministry of Interior (MoI) certification; communication equipment requires the approval of the Ministry of Communications (MoC); and, medicines require Ministry of Public Health certification.

## U.S. Export Controls

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In June 2002, the U.S. lifted most restrictions on exports and re-exports to Afghanistan. Such transactions are now subject to export control policies applicable to most countries who are not members of multilateral export control regimes. The majority of everyday commercial goods does not require specific U.S. Government authorization for export or re-export to Afghanistan. However, certain items on the Commerce Control List do require a license from the [U.S. Department of Commerce's Bureau of Industry and Security](#) (BIS). These include items controlled for chemical and biological weapons, nuclear nonproliferation, national security, and missile technology reasons. There are also foreign policy controls in place for regional stability and crime control reasons. These requirements can be found in Part 742 of the [Export Administration Regulations](#) (EAR).

The U.S. Government generally reviews license applications to export controlled goods to Afghanistan on a case-by-case basis. Note a license is required to export an item subject to the EAR even when one would not otherwise be necessary, if you know, have

reason to know, or are otherwise individually informed by BIS with respect to a specific transaction that the item will be used in activities related to nuclear, chemical, or biological weapons or missile delivery systems as defined in part 744 of the EAR. In addition, certain restrictions administered by the [U.S. Department of the Treasury's Office of Foreign Assets Control](#) (OFAC) continue in effect with respect to transactions involving members of the Taliban. Detailed information on U.S. export policies can be found at the BIS website [here](#). Specific guidance on U.S. export controls with respect to Afghanistan can be found [here](#). You may also contact the BIS Export Counseling Division at (202) 482-4811 for specific guidance.

The National Defense Authorization Act for Fiscal Year 2013 (signed 02 Jan 2013) includes a subtitle, the "Iran Freedom and Counter-Proliferation Act of 2012" (IFCA), that sets out a number of new sanctions related to Iran. IFCA strengthens existing sanctions significantly. Such sanctions include, but are not limited to, new measures that require the imposition of sanctions set forth in the Iran Sanctions Act (ISA) on persons (i.e., individuals and entities) and activities connected to Iran's energy, shipping, and shipbuilding sectors, as well as on persons involved in the sale, supply, or transfer of precious metals and certain materials to or from Iran that can be used in connection with nuclear, military, or ballistic missile programs. IFCA also makes sanctionable the provision of significant financial services in support of such sanctionable activities. In addition, IFCA provides for sanctions on the provision of underwriting services, insurance, or reinsurance to activities and persons targeted by U.S. sanctions against Iran, as well as sanctions on activities related to the diversion of goods intended for the Iranian people. These new authorities address the role of Iran's energy, shipping, and shipbuilding sectors as a source of revenue for the Government of Iran's proliferation activities. For more information on Iran sanctions, go [here](#).

### **Temporary Entry**

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Articles 113 and 114 of the Afghan Customs Code cover the temporary entry goods. Temporary importation can be either with total or partial relief of import duty. Goods that are subject to total relief of import duty from customs duties are personal belongings, tools of the trade of a skilled worker, including musical instruments, artistic and sporting equipment passengers and goods that temporarily replace goods exported for repair, and in general, any goods that at the end of the temporary importation period would have no anticipated market in Afghanistan. All other goods will be taxed at 3 percent of the monthly total customs duty if the goods were being imported.

### **Labeling and Marking Requirements**

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Afghanistan currently has no laws or regulations governing labeling and marketing requirements for products.

### **Prohibited and Restricted Imports**

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The following items are prohibited from entry in Afghanistan:

- firearms, explosives, daggers
- obscene and subversive literature
- alcohol and pork

The import of ammonium nitrate is prohibited because of security reasons as it could be used in making bombs and Improvised Explosive Devices (IEDs).

## **Customs Regulations and Contact Information**

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Although there is a focused Afghan and donor country effort to improve governance, practices, and facilities at the major border crossing points, the customs regulations and procedures in Afghanistan are neither transparent nor consistent. Coordination between customs and other government authorities is minimal though improving. Customs officials have received basic training on the customs code, and will have increased opportunities for training and development in the coming years through the new Afghanistan National Customs Academy (ANCA) which was inaugurated in January 2010. Basic communications and support for automated processes are hindered by lack of reliable electricity at major crossing points. Several border crossing facilities have been upgraded in recent years, including Torkham Gate (East), Shir Kan Bandar and Hairatan (North), and Islam Qalah (West); plans for infrastructure improvements at several other border crossing points are underway. Traders face unclear procedures at the borders as well as extra-legal duties and bureaucratic obstructions.

Customs reform is a priority of the Afghan Government. Large-scale reform efforts are underway to establish standardized fees and procedures for incoming goods, as well as streamlined procedures for exports, and a trained cadre of professional staff. In December 2003, the Customs Department introduced a Single Administrative Document (SAD) system pilot program, based on the European Union customs regime, for five key provinces and is now implemented nation-wide. In March 2005, implementation of the Automated System for Customs Data (ASYCUDA) system began on a limited scale and its Import/Export Declaration Processing Module has now been implemented in six locations, with expansion to four more expected soon. Simplified exemptions processing documentation is being introduced and amendments to the Customs Code have been drafted and are moving through Afghanistan's legislative process. A system of Licensed Customs Brokers was launched in 2003, requiring an examination, but due to high levels of illiteracy in the provinces, has been difficult to enforce (Licenses are issued without taking the exam). Improved conditions on cross-border trade are expected with ratification of the South Asian Free Trade Area (SAFTA) agreement and the newly ratified Transit Trade Agreement between Afghanistan and Pakistan (APTTA). Adoption of both agreements will require outreach to the business community and Customs Officers responsible for implementation.

The [Afghan Customs Department](#), a division of the [Ministry of Finance](#), can be contacted at:

Telephone: +(93) 752 004 199

Email: <http://customs.mof.gov.af/en>

## **Standards**

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Afghanistan is currently in the process of developing a national standards regime. The Afghan National Standards Authority (ANSA) is an independent agency established in 2005. ANSA is responsible for the establishment, maintenance, dissemination and enforcement of national standards and technical regulations. In February 2013, the



Council of Ministers approved the technical regulation on construction materials. The technical regulation on food staff is under review by the Council of Ministers. ANSA can be contacted at:

Telephone: +93 (0) 752-045-158; +93 (0) 700-215-246.

ANSA was originally established based on Presidential Decree 952 in 2004 under the Ministry of Commerce and Industries. At that time, it had only a symbolic role within government. In August 2007, the Council of Ministers approved ANSA as an independent entity and the Parliament of Afghanistan ratified this decision in February 2008. Soon after that, ANSA obtained membership in the Economic Committee of the Council of Ministers.

ANSA's overall goal is to develop essential national standards and to enhance technical infrastructure for testing. The U.S. Trade and Development Agency helped draft a Standard Law, which was enacted by Presidential Decree 77 dated September 16, 2010. A five year strategy was developed by ANSA was ratified March 2011. Additional information can be found on ANSA's website <http://www.ansa.gov.af/>

## Trade Agreements

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The Afghanistan-Pakistan Transit Trade Agreement (APTTA) was signed in October 2010. Once fully implemented, APTTA will strengthen commercial ties across the region and promote global trade, as well as contribute to greater regional security as Afghanistan and Pakistan dismantle trade barriers and work together to reduce the cost and difficulties of trade in transit.

Afghanistan is a member of the [Economic Cooperation Organization](#) (ECO, 1993) and the [Central Asia Regional Economic Cooperation](#) (CAREC, 2005). It became a full member of the [South Asian Association for Regional Cooperation](#) (SAARC) in the spring of 2007.

In January 2011, President Karzai signed the Agreement for the South Asia Free Trade Area (SAFTA), a free trade agreement among Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. Afghanistan became a full member of SAFTA on August 7, 2011. Under SAFTA, Pakistan, India and Sri Lanka will be required to lower tariffs immediately on many Afghan exports, with the other SAFTA countries (Bangladesh, Bhutan, Maldives, and Nepal) to follow suit over a five year period. Under SAFTA, Afghanistan has currently duty free access to India for all traded goods and 5 percent to Pakistan on non-sensitive goods. Afghanistan is expected to reduce its duties to 5 percent on non-sensitive goods by 2021. Effort has been ongoing to reduce sensitive goods for all SAFTA countries where 20 percent reduction was achieved in 2012. Afghanistan has also signed bilateral Trade and Economic Cooperation Economic Cooperation Agreements with Russia and Turkey, a Bilateral Reciprocal Promotion and Protection of Investments Agreement with Turkey, a Bilateral Preferential Trade Agreement with India, and a Bilateral Investment Treaty with Germany.

Afghan products enjoy duty free and quota free access under an LDC Market Access Initiative with Canada and a Generalized Preferences Treatment agreement with Japan.



Afghan products also enjoy an “Everything But Arms” (EBA) agreement with the European Union.

As a least-developed country, Afghanistan is eligible for duty-free access to the U.S. market for approximately 5,700 products under the Generalized System of Preferences (GSP) program. In the first half of 2011, GSP imports increased 14 percent compared to the same period in 2010, although only 10 percent of GSP eligible imports were claimed under GSP in 2011. Afghanistan has signed a bilateral Investment Incentive Agreement with the United States to encourage and protect investment activities in Afghanistan through the provision of insurance and investment guarantees under the OPIC program.

In 2004, a Trade and Investment Framework Agreement (TIFA) was signed with the United States which established a framework to discuss economic relations between the U.S. and Afghanistan. Since that time, there have been annual meetings of the U.S. – Afghanistan Council on Trade and Investment, established under the auspices of the TIFA, to further the bilateral cooperation needed to achieve Afghanistan’s goals of creating an environment conducive to economic reform, private sector development and trade expansion.

Afghanistan applied to the World Trade Organization (WTO) and became an observer in 2004. The process of accession to the WTO was accelerated during the last three years. There working party meetings and two rounds of bilateral negotiations were held. The next working party meeting and round of negotiations are expected in July 2013. Legal reforms have been progressing with more than 20 draft legislation prepared to comply with the WTO agreements. The USG, through USAID’s Trade and Accession Facilitation for Afghanistan (TAFA) project, has been providing technical assistance for such trade regime reform. GIIoA and the USG share a goal of achieving Afghanistan’s accession into the WTO by 2014.

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Afghan Customs Department (ACD) <http://customs.mof.gov.af/en>

Afghan Ministry of Finance <http://www.mof.gov.af/>

Afghan National Standards Authority (ANSA) <http://www.ansa.gov.af/>

Canadian Department of Foreign Affairs and International Trade <http://www.dfait-maeci.gc.ca/>

Central Asia Regional Economic Cooperation (CAREC) <http://www.adb.org/carec/>

Economic Cooperation Organization (ECO) <http://www.ecosecretariat.org/>

Gateway to the European Union <http://europa.eu/>

Indian Ministry of Commerce	<a href="http://www.commerce.nic.in/">http://www.commerce.nic.in/</a>
Japanese Ministry of Foreign Affairs	<a href="http://www.mofa.go.jp/">http://www.mofa.go.jp/</a>
Office of the U.S. Trade Representative	<a href="http://www.ustr.gov/">http://www.ustr.gov/</a>
South Asian Association for Regional Cooperation (SAARC)	<a href="http://www.saarc-sec.org/">http://www.saarc-sec.org/</a>
The GSP Guidebook	<a href="http://www.ustr.gov/webfm_send/2880">http://www.ustr.gov/webfm_send/2880</a>
Turkish Ministry of Foreign Affairs	<a href="http://www.mfa.gov.tr/">http://www.mfa.gov.tr/</a>
U.S. Department of Commerce's Bureau of Industry and Security (BIS)	<a href="http://www.bis.doc.gov/">http://www.bis.doc.gov/</a>
U.S. Department of Treasury's Office of Foreign Assets Control (OFAC)	<a href="http://www.treasury.gov/about/organizational-structure/offices/Pages/Office-of-Foreign-Assets-Control.aspx">http://www.treasury.gov/about/organizational-structure/offices/Pages/Office-of-Foreign-Assets-Control.aspx</a>
United Nations Conference on Trade and Development (UNCTAD)	<a href="http://www.unctad.org/">http://www.unctad.org/</a>
World Trade Organization (WTO)	<a href="http://www.wto.org/">http://www.wto.org/</a>

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## Chapter 6: Investment Climate

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The Government of the Islamic Republic of Afghanistan (GIRoA) recognizes the development of a vibrant private sector is crucial to the reconstruction of an economy ravaged by decades of conflict and mismanagement. GIRoA has taken concrete steps toward fostering a business-friendly environment for both domestic and foreign investment. Security threats limit investors' opportunities to develop businesses in some provinces, and certain sectors (such as mining and hydrocarbons) still lack a regulatory environment that fully supports investment. Domestic and foreign investors also rank endemic corruption high on the list of impediments. Despite these challenges, Afghanistan's investment climate presents opportunities in all sectors of the economy. The following chart summarizes well-regarded indexes and rankings (MCC refers to the Millennium Challenge Corporation):

Measure	Year	Index or Rank
TI Corruption Index	2012	174/176 (Tied for last place with Somalia and North Korea)
Heritage Economic Freedom	2012	N/A (not ranked)
World Bank Doing Business	2013	168/185

MCC Government Effectiveness	2013	-0.58 (13 percent)
MCC Rule of Law	2013	-1.03 (2 percent)
MCC Control of Corruption	2013	-0.68 (5 percent)
MCC Fiscal Policy	2013	-0.4 (85 percent)
MCC Trade Policy	2013	N/A
MCC Regulatory Quality	2013	-0.78 (13 percent)
MCC Business Start Up	2013	0.956 (78 percent)
MCC Land Rights and Access	2013	0.40 (2 percent)
MCC Natural Resource Protection	2013	16.6 (24 percent)

## **Openness to, and Restrictions Upon, Foreign Investment**

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GIRoA reaffirmed its commitment to foster a business-enabling environment at the Tokyo Conference in July 2012 with pledges to take steps to achieve World Trade Organization (WTO) accession by 2014 and to improve its World Bank Doing Business rankings. GIRoA's openness to foreign investment is underscored in both the Afghan Constitution and the 2005 Private Investment Law (PIL), which specifically prohibit discrimination against foreign investors. The PIL permits investments in nearly all sectors of the economy (exceptions are nuclear power, gambling establishments and production of narcotics and intoxicants) and designates the High Commission on Investment (HCI) as the focal point for investment policy making. The Minister of Commerce and Industries chairs the HCI; members include the Ministers of Agriculture, Economy, Finance, Foreign Affairs, Mines and Industries, the Governor of the Central Bank (Da Afghanistan Bank), and the Chief Executive Officer of the quasi-governmental Afghan Investment Support Agency (AISA). The newly established High Economic Council, chaired by the president and including ministers as well as representatives from academia and the private sector, may play an increasing role in investment policy development.

The PIL requires investors to register with AISA, which operates a streamlined business registration process and conducts business and investment promotion and facilitation activities. According to AISA, the majority of investment in Afghanistan is short term and concentrated in the construction and service sectors.

Investment in certain sectors, such as production and sales of weapons and explosives, non-banking financial activities, insurance, natural resources and infrastructure (defined to include power, water, sewage, waste-treatment, airports, telecommunications, and health and education facilities) is subject to special consideration by the HCI, in

consultation with relevant government ministries. The HCI may choose to apply specific requirements for investments in restricted sectors.

In general, investments may be 100 percent foreign-owned and there is no requirement for foreigners to secure an Afghan partner. However, the Afghan Constitution and the PIL prohibit foreign ownership of land, which compels most foreign firms to work with an Afghan partner. Foreigners may lease land for periods up to 50 years for arable land or longer for non-arable land. Some businesses have negotiated leases with an automatic renewal clause for terms of up to 99 years. Many businesses cite access to land as one of the greatest impediments to investment in Afghanistan. Private investors have the right to transfer their capital and profits out of Afghanistan, including for off-shore loan debt service.

Afghanistan's legal and regulatory frameworks and enforcement mechanisms are nascent. Much of the framework necessary for encouraging and protecting private investment is not in place, and the existence of three overlapping systems (Sharia (Islamic Law), Shura (traditional law and practice), and the formal legal system (instituted under the 2004 Constitution) can be confusing to both investors and legal professionals. Moreover, corruption in the judiciary affects the consistency of the application of the laws. Important commercial laws technically in force cover partnerships, corporations and limited liability companies, competition, arbitration, mediation, copyrights, trademarks, patents, secured transactions, and mortgages. As part of its WTO accession process, GIRoA is modifying existing legislation and drafting new laws and regulations to bring its policy framework into accordance with international standards. In March 2011, President Karzai signed a Telecommunications Law that replaced the previous law enacted by decree. A related Information Communication Technology Law, which will lay the groundwork for a new industry in electronic commerce and cyber security, is under revision with the Ministry of Communication and Information Technology and is expected to be submitted to Parliament in mid-2013. USAID and the World Bank are working with GIRoA to establish formal accounting standards in accordance with international norms.

Although most senior Afghan government officials express strong commitment to a market economy and foreign investment, many businesses maintain that this attitude is not always reflected in practice. Many government officials, some of whom demand bribes, levy unofficial taxes and inflict bureaucratic delays, are out of step with official government policy. Commercial regulatory bodies are often understaffed.

While not sanctioned by law or official policy, small groups of businessmen reported to have close familial or tribal ties with provincial leaders and government officials dominate the trading market in many areas. These individuals enjoy excessive advantages that result in a non-competitive environment in several fields due to their wealth and insider access to land, credit and contacts, and their ability to manipulate prices. In addition, some industries, including money changing and carpet production, have well-organized guilds which protect existing firms and create barriers to entry.

The World Bank's 2013 "Doing Business Report" ranks Afghanistan 168th out of 185 economies for the ease of doing business. USAID has focused assistance on improving the business-enabling environment in Afghanistan for the past several years and is working with the World Bank's International Finance Corporation and key government ministries led by the Ministry of Commerce and Industries (MoCI) to encourage

appropriate policy changes that would result in a better investment climate. USAID's project focuses on four indicators: starting a business, obtaining construction permits, access to credit, and protecting investors. Current activities include advocating for a reduction in the cost of business licenses and renewals, streamlining the process to receive construction permits, establishing credit registries, and reforming company laws to increase protections for minority shareholders.

## **Conversion and Transfer Policies**

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There are no restrictions on converting, remitting or transferring funds associated with investment, such as dividends, return on capital, interest and principal on private foreign debt, lease payments, and royalties and management fees, into a freely usable currency at a legal market clearing rate. The PIL states that an investor may freely transfer investment dividends or proceeds from the sale of an approved enterprise abroad. Afghanistan does not maintain a dual exchange rate policy, currency controls, capital controls, or any other restrictions on the free flow of funds abroad. Access to foreign exchange for investment is not restricted by any law or regulation.

In practice, however, particularly in the provinces, many banks might not have the capacity to deal with foreign exchange. The large, informal foreign exchange markets in major cities and provinces such as Kabul, Mazar-e Sharif, Jalalabad, Kandahar and Herat, where U.S. dollars, British pounds and Euros are readily available, are slowly starting to become formal markets. As of December 2012, Da Afghanistan Bank had issued 204 licenses for money service providers (MSPs), commonly referred to as "hawaladars." However, thousands of unlicensed money changers continue to practice their trade. Non-official money service providers often cite the lack of enforcement in the currency exchange sector, and the resulting competitive disadvantage to licensed exchangers, as a disincentive to becoming licensed. U.S. investors should only use licensed money service providers, which are listed on the website of Da Afghanistan Bank's Financial Transactions and Reports Analysis Center of Afghanistan (FinTRACA). In 2012, President Karzai issued an executive order making it illegal to transport more than AFS 1,000,000 (approximately USD 20,000) or the foreign currency equivalent out of Afghanistan via land or air. GIRoA is in the process of developing a new regulation to mandate declaration of cash exports greater than AFS 500,000 (approximately USD 10,000).

## **Expropriation and Compensation**

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The PIL allows for expropriation of investments or assets by the government on a non-discriminatory basis and "only for the purposes of public interest." The law stipulates that the government "shall provide prompt, adequate and effective compensation in conformity with the principles of international law, equivalent to the fair market value." In cases of investment in a foreign currency, the law requires compensation to be made in that currency. The government may also confiscate private property to settle bad commercial debts. According to the PIL, investors with an ownership share of more than 25 percent may challenge the expropriation. There have been no reports of government expropriation of foreign assets, "creeping" or otherwise.

## **Dispute Settlement**

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While a commercial court system exists, a shortage of qualified legal practitioners and endemic corruption in the judicial system are significant impediments to commercial arbitration. The enactment of the Arbitration and Mediation Laws in 2007 established the foundation for an alternative dispute settlement system. Afghanistan is a party to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States and the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards. The PIL provides for dispute resolution under these mechanisms, or under the United Nations Commission on International Trade Law (UNCITRAL) rules, or under any mechanism that the investor has specified in a contract with another investor.

The legal system plays a limited role in adjudicating commercial disputes; most businesses use informal mechanisms to resolve disputes and enforce property rights. The Afghanistan Chamber of Commerce and Industries provides commercial arbitration and mediation services to Afghan businesses. Since 2011, the U.S. Department of Commerce's Commercial Law Development Program (CLDP), with USAID support, has been working to develop an independent arbitration center.

## **Performance Requirements and Incentives**

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Afghanistan has no formal regulations or laws governing performance requirements. Currently, there are no separate investment incentives or special treatment accorded to foreign investors. In late 2012, the Minister of Finance (MoF) announced plans to develop a tax incentive package to promote foreign investment. There are no existing government-imposed conditions on investment, beyond the procedures required for establishing or acquiring a business. GIRoA does not impose offset requirements on its procurements. GIRoA does not apply discriminatory or excessively onerous visa, residence or work permit requirements for foreigners, but bureaucratic processing of visas can be time-consuming and there have been reports of the solicitation of bribes for faster processing. There are no discriminatory or preferential export and import policies affecting foreign investors.

## **Right to Private Ownership and Establishment**

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Under the PIL, foreign and domestic private entities have equal standing and may establish and own business enterprises, engage in all forms of remunerative activity and freely acquire and dispose of interests in business enterprises.

## **Protection of Property Rights**

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Property rights protection is weak due to a lack of cadastres or a comprehensive land titling database, disputed land titles, incapacity of commercial courts and widespread corruption. Land laws in Afghanistan are inconsistent, overlapping, incomplete, or silent with regard to details of effective land management. Judges and attorneys are generally without expertise in land matters. An estimated 80 percent of land is held and transferred

informally, without legally recognized deeds, titles, or a simple means to prove ownership. USAID is collaborating with GIRoA's land authority Arazi (part of the Ministry of Agriculture, Irrigation and Livestock) to develop a new archive system to consolidate existing electronic records and paper documents.

Presently, the acquisition of a clear land title to purchase real estate or a registered leasehold interest is complicated and cumbersome. The World Bank estimated in its 2013 "Doing Business Report" that it takes an average of 250 days and entails legal fees of five percent of the property value to register property. Investment disputes are common in the areas of land titling and contracts. Many documents evidencing land ownership are not archived in any official registry. Frequently, multiple "owners" claim the same piece of land, each asserting rights from a different source. These disputes hinder the development of commercial and agricultural enterprises. Real estate agents are not reliable. Foreign investors seeking to work with Afghan citizens to purchase property should conduct thorough due diligence to identify reliable partners.

CLDP has been working with MoCI to develop a draft law on insolvency. President Karzai signed legislation on mortgage and secured transactions in 2009.

GIRoA is working to bring its legislation on patents, trademarks and copyrights into compliance with WTO standards. Afghanistan will become a party to the WTO Trade Related Intellectual Property Rights (TRIPS) Agreement when it accedes to the WTO. Afghanistan seeks to accede to the WTO by 2014. GIRoA is not a party to the World Intellectual Property Organization (WIPO) Internet Treaties. Currently, there is no serious enforcement of intellectual property rights. Pirated DVDs and software are sold throughout the country. Counterfeit pharmaceuticals and building materials are also widespread.

## **Transparency of Regulatory System**

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In general, the Afghan government promotes transparent policies and effective laws to foster competition, establish "clear rules of the game," and promote foreign investment. Parliament must approve all legislation. However, when Parliament is in recess, the president may issue decrees that have the force of law. In these cases, Parliament then has the right to review and reject the decrees. However, consistent implementation and enforcement of applicable law and regulation remain a challenge. The inadequacy of the regulatory system and corruption at every level of government create significant obstacles to investment. Procedures for obtaining a business license were streamlined in 2003 with the establishment of AISA. AISA serves as a "one-stop shop" for investors to facilitate the process of establishing a business. According to the World Bank's 2013 "Doing Business Report," Afghanistan ranks 28th out of 185 economies in the ease of starting a business.

## **Developing Banking Sector**

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Finance is Afghanistan's second largest service industry (behind telecommunications) and is potentially an important driver of private investment and economic growth. The sector has grown rapidly since the end of Taliban rule. Sixteen commercial banks operate in Afghanistan, with total assets of approximately \$4.1 billion as of December 2012 (compared to less than \$300 million in 2004). There are three state banks, Bank-e Millie Afghan (Afghan National Bank), Pashtany Bank, and New Kabul Bank. The latter



is expected to be privatized by the end of 2013. There are also branch offices of foreign banks, including Alfalah Bank (Pakistan), National Bank of Pakistan, Habib Bank of Pakistan, and Punjab National Bank (India). However, most Afghans remain “unbanked,” with only a small minority currently holding deposits. In addition, many Afghans continue to rely on hawaladars to access finance and transfer money, due in part to unfamiliarity with a functional banking system and limited access to banks in rural areas. Two of the four mobile network operators – Etisalat and Roshan – offer money mobile services, with MTN and AWCC expected to roll out their mobile money products in 2013. Banking remains highly centralized, with a considerable majority of total loans made in Kabul Province. Bank lending is also undermined by a deficient legal and regulatory infrastructure that impedes the enforcement of property rights and development of collateral. The aggregate loan-to-deposit ratio for the banking sector is 24 percent and most banks concentrate on short-term credit to well-known customers. The difficulty of accessing credit through banks and other formal financial institutions makes existing firms dependent on family funds and retained earnings, limits opportunities for entrepreneurialism, and reinforces dependence on the informal credit market.

The 2010 exposure of massive fraud at Kabul Bank revealed the underlying weaknesses in banking regulation and supervision. Despite receiving significant technical assistance, Da Afghanistan Bank (DAB – the Afghan central bank) has been unable to match the pace of the banking sector’s growth with requisite improvements in monitoring and supervision. These weaknesses have been compounded by a lack of political will in the Afghan government more broadly to enforce laws against well-connected wrongdoers in the financial sector. Credit to the private sector stands at approximately 5 percent of GDP, significantly lower than other countries in the region. Afghanistan ranks 154th out of 185 countries for ease of obtaining credit in the World Bank’s 2013 “Doing Business Report.” Afghan entrepreneurs complain that the interest rate for a commercial loan from a local bank ranges from 15-20 percent. In response to this situation, investment funds, leasing, micro-financing and SME-financing companies have entered the market; however, despite strong donor support for many of their activities, these firms have been handicapped by difficulties in securing repayment. USAID is working with GIRoA and the banking sector to promote improved access to finance and the expansion of mobile money for financial inclusion. New IMF-mandated banking legislation to improve banking sector oversight is currently in Parliament.

## **Competition from State Owned Enterprises**

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In principle, government policies and regulations apply the standard of competitive equality to private enterprises in competition with public enterprises with respect to access to markets, credit and other business operations. However, in some instances, working-level government officials have exhibited anti-competitive and protectionist bias in some sectors in which state-owned enterprises (SOEs) are active. Under Presidential Decree No. 103 (2005), the MoF began assessing the economic viability of existing SOEs. The MoF initially determined that eight of 64 enterprises should remain state-owned for the time being, while the other 56 should be divested – either through privatization, liquidation, corporatization or other mechanisms. To date, the Afghan government has fully privatized two SOEs, changed the governance structure of three, partially privatized four, and transferred assets of 18 SOEs to budgetary units of the government. Additional divestment requires approval of the Cabinet as well as both

houses of Parliament. At present, there are no plans to divest or convert the remaining 37 SOEs.

## **Corporate Social Responsibility**

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GIRoA works with large companies and foreign investors to encourage corporate social responsibility (CSR). Large mining contracts include stipulations for environmental protection and community inclusion. Afghanistan law prohibits mining that would result in the destruction of antiquities unless the mining company has prior approval from the Ministry of Information and Culture. All four competing mobile network operators in the country have well-developed CSR outreach programs that include health, education, job creation, environmental protection and outreach to refugees. Some Afghan charities are also benefiting from CSR funds from companies outside of the country. The American Chamber of Commerce in Afghanistan has identified CSR as one of its core focus areas. In addition, some Afghan entrepreneurs, such as Ihsanullah Bayat, the Barakat Group, Hotak Azizi and the Alokozay Group, have foundations that provide assistance in the fields of health, education, and the eradication of poverty.

## **Political Violence**

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Afghanistan is struggling toward political stability, but anti-government violence and public concerns regarding the security and political transition in 2014 have constrained economic activity. The government is taking steps to extend its reach in the provinces, but the risk of violence continues to be high in many areas. Security remains a primary concern for most investors. Foreign firms operating in country report spending a significant percentage of their revenues on security infrastructure and operating expenses. The U.S. Department of State continues to warn Americans against travel to Afghanistan. U.S. citizens should review the Consular Information Sheet and Travel Warning for Afghanistan for the most up-to-date information on the security situation and possible threats.

## **Corruption**

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Corruption is pervasive in Afghanistan. In 2012, Afghanistan tied with Somalia and North Korea for last place in Transparency International's Corruption Perception Index. Based on the Afghan penal code, corruption is a serious criminal act; articles 260 to 267 state anyone accepting or giving a bribe can be charged with criminal acts. While these anti-corruption laws exist, enforcement has been very limited. President Karzai created the High Office of Oversight for the Implementation of Anti-Corruption Strategy ("HOO") to coordinate anti-corruption measures for the government; this office, however, does not control penalties or fines and has been largely ineffective. Afghanistan acceded to the United Nations Convention against Corruption (UNCAC) in August 2008, but is not a party to the OECD Convention on Combating Bribery of Foreign Public Officials. The 2011 establishment of the Independent Monitoring and Evaluation Committee (MEC) for anti-corruption should assist the Afghan government in assessing its compliance with UNCAC. In November 2012, the MEC released an in-depth public inquiry to examine the events leading to the Kabul Bank crisis. The MEC issued a set of recommendations to improve governance in the financial sector and to help prevent similar events in the future.

U.S. firms identify corruption as one of the biggest obstacles to foreign direct investment and routinely report being asked for a bribe, called “sherini” (sweetness) or “baksheesh” (present). Although official working-level government salaries have risen, many officials at all levels take small bribes for government services.

**Foreign Corrupt Practices Act:** In 1977, the United States enacted the Foreign Corrupt Practices Act (FCPA), which makes it unlawful for a U.S. person, and certain foreign issuers of securities, to make a corrupt payment to foreign public officials for the purpose of obtaining or retaining business for or with, or directing business to, any person. The FCPA also applies to foreign firms and persons who take any act in furtherance of such a corrupt payment while in the United States. For more detailed information on the FCPA, see the FCPA Lay-Person’s Guide [here](#).

**Other Instruments:** It is U.S. Government policy to promote good governance, including host country implementation and enforcement of anti-corruption laws and policies pursuant to their obligations under international agreements. Since enactment of the FCPA, the United States has been instrumental to the expansion of the international framework to fight corruption. Several significant components of this framework are the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD Anti-bribery Convention), the United Nations Convention against Corruption (UN Convention), the Inter-American Convention against Corruption (OAS Convention), the Council of Europe Criminal and Civil Law Conventions, and a growing list of U.S. free trade agreements. Afghanistan is party to the UN Convention, but generally all countries prohibit the bribery and solicitation of their public officials.

**OECD Anti-bribery Convention:** The OECD Anti-bribery Convention entered into force in February 1999. As of December 2009, there are 38 parties to the Convention including the United States (see [here](#)). Major exporters China, India, and Russia are not parties, although the USG strongly endorses their eventual accession to the Convention. The Convention obligates the Parties to criminalize bribery of foreign public officials in the conduct of international business. The United States meets its international obligations under the OECD Anti-bribery Convention through the U.S. FCPA. Afghanistan is not a party to the OECD Convention.

**UN Convention:** The UN Anticorruption Convention entered into force on December 14, 2005, and there are 143 parties to it as of December 2009 (see [here](#)). The UN Convention is the first global comprehensive international anticorruption agreement. The UN Convention requires countries to establish criminal and other offences to cover a wide range of acts of corruption. The UN Convention goes beyond previous anticorruption instruments, covering a broad range of issues ranging from basic forms of corruption such as bribery and solicitation, embezzlement, trading in influence to the concealment and laundering of the proceeds of corruption. The Convention contains transnational business bribery provisions that are functionally similar to those in the OECD Anti-bribery Convention and contains provisions on private sector auditing and books and records requirements. Other provisions address matters such as prevention, international cooperation, and asset recovery. Afghanistan is a party to the UN Convention.

**OAS Convention:** In 1996, the Member States of the Organization of American States (OAS) adopted the first international anticorruption legal instrument, the Inter-American Convention against Corruption (OAS Convention), which entered into force in March

1997. The OAS Convention, among other things, establishes a set of preventive measures against corruption, provides for the criminalization of certain acts of corruption, including transnational bribery and illicit enrichment, and contains a series of provisions to strengthen the cooperation between its States and Parties in areas such as mutual legal assistance and technical cooperation. As of December 2009, the OAS Convention has 33 parties (see [here](#)) Afghanistan is not a party to the OAS Convention.

**Council of Europe Criminal Law and Civil Law Conventions:** Many European countries are parties to either the Council of Europe (CoE) Criminal Law Convention on Corruption, the Civil Law Convention, or both. The Criminal Law Convention requires criminalization of a wide range of national and transnational conduct, including bribery, money-laundering, and account offenses. It also incorporates provisions on liability of legal persons and witness protection. The Civil Law Convention includes provisions on compensation for damage relating to corrupt acts, whistleblower protection, and validity of contracts, inter alia. The Group of States against Corruption (GRECO) was established in 1999 by the CoE to monitor compliance with these and related anti-corruption standards. Currently, GRECO comprises 46 member States (45 European countries and the United States). As of December 2009, the Criminal Law Convention has 42 parties and the Civil Law Convention has 34 (see [here](#)). Afghanistan is not a party to the Council of Europe Conventions.

**Free Trade Agreements:** While it is USG policy to include anti-corruption provisions in free trade agreements (FTAs) that it negotiates with its trading partners, such provisions have evolved over time. The most recent FTAs negotiated now require U.S. trading partners to criminalize “active bribery” of public officials (offering bribes to any public official must be made a criminal offense, both domestically and trans-nationally) as well as domestic “passive bribery” (solicitation of a bribe by a domestic official). All U.S. FTAs may be found at the U.S. Trade Representative website [here](#).

**Local Laws:** U.S. firms should familiarize themselves with local anticorruption laws, and, where appropriate, seek legal counsel. While the U.S. Department of Commerce cannot provide legal advice on local laws, the Department’s U.S. and Foreign Commercial Service can provide assistance with navigating the host country’s legal system and obtaining a list of local legal counsel.

**Assistance for U.S. Businesses:** The U.S. Department of Commerce offers several services to aid U.S. businesses seeking to address business-related corruption issues. For example, the U.S. and Foreign Commercial Service can provide services that may assist U.S. companies in conducting their due diligence as part of the company’s overarching compliance program when choosing business partners or agents overseas. The U.S. Foreign and Commercial Service can be reached directly through its offices in every major U.S. and foreign city, or through its website [here](#).

The Departments of Commerce and State provide worldwide support for qualified U.S. companies bidding on foreign government contracts through the Commerce Department’s Advocacy Center and State’s Office of Commercial and Business Affairs. Problems, including alleged corruption by foreign governments or competitors, encountered by U.S. companies in seeking such foreign business opportunities can be brought to the attention of appropriate U.S. Government officials, including local embassy personnel and through the Department of Commerce Trade Compliance Center “Report A Trade Barrier” website [here](#).

**Guidance on the U.S. FCPA:** The Department of Justice's (DOJ) FCPA Opinion Procedure enables U.S. firms and individuals to request a statement of the Justice Department's present enforcement intentions under the anti-bribery provisions of the FCPA regarding any proposed business conduct. The details of the opinion procedure are available on DOJ's Fraud Section website [here](#). Although the Department of Commerce has no enforcement role with respect to the FCPA, it supplies general guidance to U.S. exporters who have questions about the FCPA and about international developments concerning the FCPA. For further information, see the Office of the Chief Counsel for International Counsel, USDOC, website [here](#). More general information on the FCPA is available at the websites listed at the end of this section.

Exporters and investors should be aware generally all countries prohibit the bribery of their public officials, and prohibit their officials from soliciting bribes under domestic laws. Most countries are required to criminalize such bribery and other acts of corruption by virtue of being parties to various international conventions discussed above.

### **Anti-Corruption Resources**

Some useful resources for individuals and companies regarding combating corruption in global markets include the following:

- Information about the U.S. Foreign Corrupt Practices Act (FCPA), including a "Lay-Person's Guide to the FCPA" is available at the U.S. Department of Justice's website [here](#).
- Information about the OECD Anti-bribery Convention including links to national implementing legislation and country monitoring reports is available [here](#). See also new Anti-bribery Recommendation and Good Practice Guidance Annex for companies [here](#).
- General information about anticorruption initiatives, such as the OECD Convention and the FCPA, including translations of the statute into several languages, is available at the Department of Commerce Office of the Chief Counsel for International Commerce website [here](#).
- Transparency International (TI) publishes an annual Corruption Perceptions Index (CPI). The CPI measures the perceived level of public-sector corruption in 176 countries and territories around the world. The CPI is available at <http://www.transparency.org/>. TI also publishes an annual *Global Corruption Report* which provides a systematic evaluation of the state of corruption around the world. It includes an in-depth analysis of a focal theme, a series of country reports that document major corruption related events and developments from all continents and an overview of the latest research findings on anti-corruption diagnostics and tools.
- The World Bank Institute publishes Worldwide Governance Indicators (WGI). These indicators assess six dimensions of governance in 212 countries, including Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption. See [here](#).



The World Bank Business Environment and Enterprise Performance Surveys may also be of interest and are available [here](#).

- The World Economic Forum publishes the *Global Enabling Trade Report*, which presents the rankings of the Enabling Trade Index, and includes an assessment of the transparency of border administration (focused on bribe payments and corruption) and a separate segment on corruption and the regulatory environment. See [here](#).
- Additional country information related to corruption can be found in the U.S. State Department's annual *Human Rights Report* available [here](#).
- Global Integrity, a nonprofit organization, publishes its annual *Global Integrity Report*, which provides indicators for 92 countries with respect to governance and anti-corruption. The report highlights the strengths and weaknesses of national level anti-corruption systems. The report is available [here](#).

## **Bilateral Investment Agreements**

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Afghanistan has bilateral investment treaties (BITs) with Turkey and Germany. Afghanistan became a full member of the South Asia Free Trade Area (SAFTA) on August 7, 2011. Most products originating in Afghanistan can be imported into the U.S. duty-free under the Generalized System of Preferences (GSP) Program. European Union tariffs on Afghan products are also very low. Afghanistan is a member of the South Asian Association for Regional Cooperation (SAARC) and of Central Asian Regional Economic Cooperation (CAREC). Afghanistan and Pakistan signed the Afghanistan Pakistan Transit Trade Agreement (APTTA) in October 2010. Once fully implemented, APTTA should cut down on transportation costs and promote trade within the region. According to MoCI, GIRoA has investment-related agreements with China and Kazakhstan. Afghanistan signed a Trade and Investment Framework Agreement (TIFA) with the United States in 2004. Afghanistan does not have a BIT or a bilateral taxation treaty with the United States.

## **OPIC and Other Investment Insurance Programs**

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The Overseas Private Investment Corporation (OPIC) offers financing (from large structured finance to small business loans), political risk insurance, and support for private-equity investment funds. Since 2003, OPIC has committed more than \$295 million in financing and political risk insurance to support 38 projects in Afghanistan. Afghanistan is a member of the World Bank's Multilateral Investment Guarantee Agency (MIGA).

## **Labor**

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There is a critical shortage of skilled labor in Afghanistan. Less than 30 percent of the population over the age of 15 can read and write. Decades of war, a low level of education and a lack of training facilities have resulted in a serious scarcity of skilled technicians, qualified managers and educated professionals. U.S. companies that establish training programs for their employees should expect significant returns in

enhanced productivity, but there is a risk of high turnover as skilled employees seek higher paying opportunities.

Labor-management relations are undeveloped. While there are major and smaller trade union organizations in the country, there is little knowledge or practice of collective bargaining. The Afghan Parliament passed a Labor Law in 2008. While the law does not meet International Labor Organization (ILO) standards, the Ministry of Labor is developing a number of regulations to bring implementation into ILO compliance. Afghanistan's labor law sets terms for working hours, overtime, and leave, and calls for employers to provide a wide array of benefits. The law also bans forced labor and child labor, but the penal code lacks provisions for its effective enforcement. There is little awareness of the law's provisions in either the government or the private sector. The Ministry of Labor, Social Affairs, Martyrs and Disabled lacks the capacity to enforce the law. A 2005 labor regulation allows for the employment of foreign workers, but requires that priority be given to equally qualified Afghan workers.

### **Foreign-Trade Zones/Free Ports**

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Afghanistan has no duty-free import zones or ports.

### **Foreign Direct Investment Statistics**

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Comprehensive foreign direct investment (FDI) statistics for Afghanistan are unavailable. Available figures are not reliable due to inconsistencies in data collection. The United Nations Conference on Trade and Development (UNCTAD) 2012 World Investment Report estimates FDI flow into Afghanistan in 2011 at USD 83 million and total FDI stocks at USD 1.48 billion, representing 8.1 percent of GDP. According to AISA, the top FDI destination sectors in Afghanistan are construction and services.

### **Web Resources**

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Afghan Ministry of Commerce & Industries (MoCI)	<a href="http://www.commerce.gov.af/">http://www.commerce.gov.af/</a>
Afghan Ministry of Finance (MoF)	<a href="http://www.mof.gov.af/">http://www.mof.gov.af/</a>
Afghanistan Chamber of Commerce and Industry (ACCI)	<a href="http://www.acci.org.af/">http://www.acci.org.af/</a>
Afghanistan Investment Support Agency (AISA)	<a href="http://www.aisa.org.af/">http://www.aisa.org.af/</a>
American Chamber of Commerce in Afghanistan (AmCham)	<a href="http://www.amcham-af.org/">http://www.amcham-af.org/</a>
Council of Europe (CoE)	<a href="http://www.coe.int/">http://www.coe.int/</a>
Da Afghanistan Bank	<a href="http://www.centralbank.gov.af/">http://www.centralbank.gov.af/</a>
Department of Justice – Foreign Corrupt Practices Act (FCPA)	<a href="http://www.justice.gov/criminal/fraud/fcpa/">http://www.justice.gov/criminal/fraud/fcpa/</a>

Department of State Consular Information Sheet and Travel Warning for Afghanistan.	<a href="http://travel.state.gov/travel/cis_pa_tw/cis/cis_1056.html">http://travel.state.gov/travel/cis_pa_tw/cis/cis_1056.html</a>
Heritage Foundation (Index of Economic Freedom)	<a href="http://www.heritage.org/index/">http://www.heritage.org/index/</a>
Millennium Challenge Corporation (MCC)	<a href="http://www.mcc.gov/">http://www.mcc.gov/</a>
Multilateral Investment Guarantee Agency	<a href="http://www.miga.org/">http://www.miga.org/</a>
Organization for Economic Cooperation and Development (OECD)	<a href="http://www.oecd.org/">http://www.oecd.org/</a>
Organization of American States (OAS)	<a href="http://www.oas.org/">http://www.oas.org/</a>
Overseas Private Investment Corporation (OPIC):	<a href="http://www.opic.gov/">http://www.opic.gov/</a>
Transparency International (Corruption Index)	<a href="http://www.transparency.org/">http://www.transparency.org/</a>
U.S. Trade Representative (USTR)	<a href="http://www.ustr.gov/">http://www.ustr.gov/</a>
UN Commission on International Trade Law (UNCITL)	<a href="http://www.uncitral.org/uncitral/en/index.html">http://www.uncitral.org/uncitral/en/index.html</a>
UN Conference on Trade and Development (UNCTAD)	<a href="http://www.unctad.org/">http://www.unctad.org/</a>
World Bank Doing Business 2012 Report	<a href="http://doingbusiness.org/data/exploreconomies/afghanistan">http://doingbusiness.org/data/exploreconomies/afghanistan</a>
World Intellectual Property Organization (WIPO)	<a href="http://www.wipo.int/portal/index.html.en">http://www.wipo.int/portal/index.html.en</a>
World Trade Organization (WTO)	<a href="http://www.wto.org/">http://www.wto.org/</a>

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## Chapter 7: Trade and Project Financing

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- [How Does the Banking System Operate](#)
- [Foreign-Exchange Controls](#)
- [U.S. Banks and Local Correspondent Banks](#)
- [Project Financing](#)
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### How Do I Get Paid (Methods of Payment)

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Most local businesses operate on a cash basis. Import and export letters of credit are available at several banks as well as electronic funds transfer. Due to wide mistrust and general underdevelopment of the banking system, many local businesses depend on the informal *hawala* system to make payments and transfer funds. The *hawala* system is an informal value transfer system whereby money is transferred through a network of brokers, or *hawaladars*. Promissory instruments are not exchanged; the transaction is based on the honor system.

Many U.S. firms exporting to Afghanistan require cash payment in advance, made by wire transfer, before shipping to Afghanistan. Foreign businesses dealing with Afghanistan should insist on confirmed, irrevocable letters of credit (L/Cs) when initiating relationships with new importers and distributors. U.S. firms should be cautious about agreeing to L/Cs terms that require onsite inspection certificates as it may be difficult to get Afghan officials to complete cargo inspection certificates, or other forms, required to meet L/Cs documentation requirements needed for release of payment.

### How Does the Banking System Operate

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Finance is Afghanistan's second largest service-based industry (behind telecommunications) and contributes to private investment and economic growth. The sector has grown rapidly since the end of Taliban rule. Today, 17 commercial banks operate in Afghanistan, with total assets of \$4.01 billion (compared to assets of less than \$300 million in 2004). Today, 17 commercial banks operate in Afghanistan, with total assets of \$4.4 billion (compared to assets of less than \$300 million in 2004). The majority of these banks are not sophisticated enough to provide international financial transactions. The Afghan banking system is regulated by Da Afghanistan. Afghanistan's three state owned banks include: [Bank-e Milli \(National Bank\)](#), [Pashtanyi Bank](#), and the recently-acquired [New Kabul Bank](#).

Despite the boom in banking, most Afghans remain "unbanked," with only 7.3 percent of Afghans currently holding bank deposits. Moreover, many Afghans continue to rely on money service providers (or hawalas) to access finance and transfer money, due to the unfamiliarity with a functioning banking system and limited access to banks in rural areas. Banking remains highly centralized, with 75 percent of total loans made in Kabul Province. Bank lending is also undermined by a deficient legal and regulatory infrastructure that impedes the enforcement of property rights and development of

collateral. The difficulty of accessing credit through banks and other formal financial institutions makes existing firms dependent on family funds and retained earnings, limits opportunities for entrepreneurialism, and reinforces dependence on the informal credit market.

Access to credit has been identified as one of the largest obstacles to investment in Afghanistan. Credit to the private sector has remained range-bound between 4 and 12 percent of GDP since 2008 (low relative to other developing countries), though in absolute terms has been steadily rising. Afghanistan ranks 168th out of 185 countries for obtaining credit in the World Bank's 2013 "Doing Business Report." In response to this situation, investment funds, leasing, micro-financing, and SME-financing companies have begun to enter the market.

Afghanistan has a small public debt market. The Central Bank issues Capital Notes (akin to U.S. Treasury Bills) with maturities of one and six months. Interest rates on both maturities have stabilized at around 6 percent. Licensed commercial banks, money service providers, and foreign exchange dealers are eligible to participate in the primary auction of these securities and the Central Bank is currently working on a plan to encourage development of a secondary market for Capital Notes.

Afghanistan's Central Bank, the [Da Afghanistan Bank](#) (DAB), has taken important steps to improve banking regulation and supervision in recent years. However, serious challenges remain, including lack of capacity, limited operational transparency, a weak legal framework, and further need for improvements in supervision. The Central Bank is now conducting both on- and off-site supervision of all 17 commercial banks. Most bank loans have traditionally been structured as lines of credit rather than term loans, which tends to obscure the true level of non-performing loans. Under the guidance of the DAB, banks are converting lines of credit to term loans.

## **Foreign-Exchange Controls**

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Exchange rate policy is determined by the Central Bank, and is implemented through a weekly foreign exchange auction of U.S. Dollars. No foreign exchange restrictions or multiple currency practices are currently in place.

## **U.S. Banks and Local Correspondent Banks**

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Currently, there are no U.S. financial institutions operating independently in Afghanistan. Afghanistan's banking sector is working to develop international banking and correspondent relationships necessary for modern banking transactions. Several Afghan banks have correspondent accounts with major international banks; however, most Afghan banks do not have the international correspondent capabilities needed to facilitate wire transfers and letters of credit directly with U.S. banks.

U.S. firms should work with the international banks that meet U.S. banking standards, anti-money laundering requirements, and comply with Iran sanctions, when making international financial transactions in Afghanistan.

Foreign banks with branches in Afghanistan include: Alfalah Bank (Pakistan), Habib Bank of Pakistan, National Bank of Pakistan, and Punjab National Bank (India).

Project financing is available from the following organizations:

The Overseas Private Investment Corporation (OPIC) is an independent agency of the U.S. Government that offers specialty insurance (stand-alone terror/sabotage and political risk coverage), loans and guarantees to help U.S. businesses of all sizes invest and compete in more than 140 emerging markets and developing nations worldwide. A \$100 million line of credit is available for projects that demonstrate substantial U.S. participation, promise significant benefits to the economic and social development of Afghanistan, and foster private sector competition in Afghanistan. OPIC is active in Afghanistan and gives preferential consideration to projects that significantly involve U.S. small businesses. For a list of current OPIC projects in Afghanistan, go [here](#) and select *Afghanistan*.

The International Finance Corporation (IFC) promotes sustainable private sector investment in developing countries and is the largest multilateral source of loan and equity financing for private sector projects in the developing world. IFC provides loans, equity finance and quasi-equity. It also offers financial risk management products and intermediary finance. For information on IFC's Afghanistan portfolio, go [here](#).

The U.S. Trade and Development Agency (USTDA) advances economic development and U.S. commercial interests in developing and middle-income countries. The agency funds various forms of technical assistance, feasibility studies, training, orientation visits and business workshops that support the development of a modern infrastructure and a fair and open trading environment. USTDA moved quickly to establish its program and has provided more than \$9 million in funds for projects benefiting Afghanistan since 2002. USTDA has financed projects in telecommunications, civil aviation, oil and gas, higher education, private sector development, and power.

The Export-Import Bank of the United States (Ex-Im) provides financing for the sale of U.S. products and services overseas. Although Ex-Im is currently not open for business in Afghanistan, it will continue to survey future opportunities.

Many business opportunities are connected to the reconstruction effort. The following agencies have large programs through which opportunities for interested businesses are available.

U.S. Agency for International Development (USAID) has taken a leading role in Afghanistan's reconstruction effort, focusing on health clinics and basic health services, school construction and education programs, revitalizing agriculture through irrigation systems, farm-to-market roads, market centers, SME development, and infrastructure, including the Kabul-Kandahar-Herat highway. USAID is also funding programs that enhance the central Government's capacity and provide it with the tools and technical assistance to govern effectively. Between 2006 and 2011, USAID received \$9.5 billion for Afghanistan assistance, of which \$8.3 has been disbursed as of September 30, 2011. USAID's Afghanistan website, [here](#), has information on procurement opportunities and doing business with USAID. U.S. firms interested in bidding on USAID projects in Afghanistan can review requests for applications, proposals, quotations and invitation for bids on this website. U.S. firms should also review the main portal for USG procurements [here](#).

The World Bank projects primarily focus on improving rural livelihoods by rebuilding infrastructure and providing employment opportunities, education and basic health services. It is the largest international donor to the Government's flagship National Solidarity and National Emergency Employment Programs, which, respectively, channel block grants through elected community councils to around 17,000 villages and offer cash-for-work on infrastructure projects. In addition, the World Bank administers the multi-donor [Afghanistan Reconstruction Trust Fund \(ARTF\)](#), which provides coordinated financing of unfunded priority expenditures in Afghanistan's reconstruction program as well as supporting the recurrent costs of government. The World Bank's website, [here](#), includes an information portal for the business community seeking to participate in opportunities that are generated from World Bank-financed projects. Afghanistan-specific projects, programs and results can be found [here](#). Projects can also be tracked [here](#) and [here](#).

Asian Development Bank (ADB) as of December 31, 2011, ADB had provided Afghanistan with \$2.7 billion in loans, grants, guarantees, technical assistance, ADB ADB --the fourth largest donor to Afghanistan after US, Japan and European Commission -- administers co-financing, and private sector investments. ADB projects focus in the areas of agriculture and natural resources, energy, gender, governance, financial and private sector development, transport and communications. A detailed description of ADB's Afghanistan strategy and programs can be found [here](#) and [here](#). Projects can be also be tracked [here](#) and [here](#).

In addition, there are also opportunities to bid on donor-funded projects administered by Afghanistan. The [Afghanistan Reconstruction and Development Service \(ARDS\)](#) manages the purchase of goods and services on behalf of the Afghan Government. Companies that wish to receive procurement notices can do so by registering through email [here](#).

Political risk insurance is available both through [OPIC](#) and the Afghanistan Investment Guarantee Facility, a program of the World Bank's [Multilateral Investment Guarantee Agency \(MIGA\)](#).

## Web Resources

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Afghanistan Central Bank, Da Afghanistan Bank	<a href="http://www.centralbank.gov.af/">http://www.centralbank.gov.af/</a>
Afghanistan Reconstruction and Development Services	<a href="http://www.ards.gov.af/">http://www.ards.gov.af/</a>
Asian Development Bank	<a href="http://www.adb.org/">http://www.adb.org/</a>
Country Limitation Schedule:	<a href="http://www.exim.gov/tools/country/country_limits.html">http://www.exim.gov/tools/country/country_limits.html</a>
Devex	<a href="http://www.devex.com">http://www.devex.com</a>
DG Market	<a href="http://www.dgmarket.com">http://www.dgmarket.com</a>

Export-Import Bank of the United States (Ex-Im):	<a href="http://www.exim.gov/">http://www.exim.gov/</a>
International Finance Corporation	<a href="http://www.ifc.org/">http://www.ifc.org/</a>
Multilateral Investment Guarantee Agency	<a href="http://www.miga.org/">http://www.miga.org/</a>
Overseas Private Investment Corporation (OPIC):	<a href="http://www.opic.gov/">http://www.opic.gov/</a>
The World Bank	<a href="http://www.worldbank.org/">http://www.worldbank.org/</a>
U.S. Agency for International Development:	<a href="http://www.usaid.gov/">http://www.usaid.gov/</a>
U.S. Department of Agriculture (USDA) Commodity Credit Corporation:	<a href="https://www.fsa.usda.gov/FSA/webapp?area=about&amp;subject=landing&amp;topic=sao-cc/">https://www.fsa.usda.gov/FSA/webapp?area=about&amp;subject=landing&amp;topic=sao-cc/</a>
U.S. Small Business Administration (SBA) Office of International Trade:	<a href="http://www.sba.gov/oit/">http://www.sba.gov/oit/</a>
U.S. Trade and Development Agency (USTDA):	<a href="http://www.ustda.gov/">http://www.ustda.gov/</a>

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## Chapter 8: Business Travel

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- [Travel Advisory](#)
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- [Telecommunications](#)
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### Business Customs

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Business meetings are conducted in Dari, Pashto or English. Green or black tea, nuts and raisins are typically served. The form of greeting is “Asalam Aleikum” (Peace be with you), followed by a firm handshake and then, for courtesy and to pay homage to the host (you don’t necessarily have to), briefly place your right hand over your heart. It is best to take a few minutes to initially engage in pleasantries about each other's country, rather than going straight to business. Afghan interlocutors may appear vague and non-committal during meetings. In order to build trust and "get to yes," be patient, share meals and other social events and discuss matters other than business. Capture the essence of your business meetings and agreements in a follow up letter to your Afghan interlocutor. Be clear about what you have committed yourself or your U.S. firm to do, or in many cases, have not committed to do. A promise to "look into" or "research" an issue, quote, or pricing policy may be interpreted as a firm commitment.

Do not rely heavily on email and the internet when doing business in Afghanistan. Most Afghan businesspeople do not have access to the internet outside of work hours, and many are only able to log on once or twice a week. Afghans prefer to meet in person, or to talk over the phone when a face-to-face meeting is impractical.

### DOs and DON'Ts in Afghan Culture

Do greet everyone when entering a room. Shake hands with the men, but not with a woman unless she extends her hand first.

Do eat with your right hand as much as possible.

Do dress modestly. At a minimum, women in Afghanistan typically cover their head with a scarf, wear long sleeves and either slacks and a tunic or a floor-length skirt,

Do accept a chair if someone brings you one to sit on, even if you would rather stand. This is a sign of respect.

Do read about the country's history, culture, and people before you come, as this will be treated as a sign of respect for Afghanistan.

Don't show impatience if your interlocutor isn't giving you direct answers. Afghans like to elaborate and want to be clear in communicating.

Don't panic. The Afghan Government can be bureaucratic. It may take you several days to get a simple authorization signed. Keep in mind that the Afghan Government is undergoing a reform process.

Don't call an Afghan "Afghani." Afghani is the currency; Afghans are the people of Afghanistan.

Don't drink alcohol in front of an Afghan as Afghanistan is an Islamic country.

### **Travel Advisory**

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While the U.S. Embassy in Kabul encourages U.S. companies to review business opportunities in Afghanistan, it is important to keep in mind the volatile security situation in the country. Travelers should consult the State Department Travel website [here](#) prior to any travel and review both the Consular Information Sheet and Travel Warning for Afghanistan. These documents can be found [here](#). U.S. citizens should register with the U.S. Embassy through the State Department's Smart Traveler Enrollment Program (STEP) [here](#). Enrolling in STEP will allow the U.S. Embassy to more easily communicate with you in the event of an emergency.

### **Visa Requirements**

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A passport and valid visa are required to enter and exit Afghanistan. Afghan entry visas are not available at Kabul International Airport. American citizens who arrive without a visa are subject to confiscation of their passport and face heavy fines and difficulties in retrieving their passport and obtaining a visa, as well as possible deportation from the country.

For the most updated requirements to obtain an Afghan visa, please contact the Embassy of Afghanistan located at 2341 Wyoming Ave. NW, Washington, D.C. 20008, phone 202-483-6410, fax 202-483-6488, [here](#).

U.S. companies that require travel of foreign businesspersons to the United States should know that it can take an average of between 60 and 90 days for an Afghan citizen to receive a visa to visit the United States due to a lengthy clearance process. The visa application process, including the appointment request must now be completed on-line. Please see the U.S. Embassy website, [here](#), for instructions.

State Department Visa website [here](#).

U.S. Embassy in Afghanistan [here](#).

### **Telecommunications**

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There are more than 120,000 fix-line telephones, provided by state-owned Afghan Telecom (AfTel). The vast majority of Afghanistan's 18 million telephone users subscribe to mobile service. Cellular service is available in Kabul and all 34 provinces, and subsidized rural access programs have improved coverage in remote areas. Eighty five percent of the population lives within a coverage area. There are currently four nationwide GSM wireless service providers: Roshan, owned by an international consortium led by the Aga Khan Fund for Economic Development; Afghan Wireless Communications Company (AWCC), a joint venture between U.S.-based Telephone Systems International and the Afghan Ministry of Communications; MTN (also known as Areeba), a subsidiary of South Africa-based MTN Group and a subsidiary of UAE-based Etisalat, and AfTel, which serves approximately 10,000 CDMA wireless customers. Roshan, MTN, and Etisalat also provide 3G services. The country has multiple internet service providers, assisted by a new fiber-optic cable that connects to Pakistan, Iran, Uzbekistan, and Tajikistan and link Afghanistan's major population centers.

## **Transportation**

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Several commercial airlines serve Afghanistan at Kabul International Airport, primarily through Dubai, U.A.E. Afghan and other International carriers Kam Air, Ariana Afghan Airlines, Safi Airways and Fly Dubai operate daily flights between Dubai and Kabul. Turkish Airlines operates four flights weekly between Istanbul and Kabul. Pakistan International Airlines has five weekly flights to and from Islamabad and Peshawar. Air India, Kam Air and Safi Airways have daily flights to and from New Delhi.

As there is no direct commercial air service to the United States by carriers registered in Afghanistan, the U.S. Federal Aviation Administration (FAA) has not assessed the government of Afghanistan's Civil Aviation Authority for compliance with International Civil Aviation Organization (ICAO) aviation safety standards. Further information may be found on the FAA's safety assessment page.

U.S. government personnel are not permitted to travel on most Afghan airlines due to these ongoing safety concerns and the lack of Afghan government safety oversight capabilities. U.S. government personnel may travel into and out of Afghanistan on international flights operated by airlines from countries whose civil aviation authorities meet the safety standards for the oversight of their air carrier operations under the FAA's International Aviation Safety Assessment (IASA) program. Such countries with airlines that operate to Afghanistan have included India, Pakistan, Bahrain, Germany, Turkey, and the United Arab Emirates.

Please see the State Department's Consular Information Sheet [here](#) for more information. Taxis around Kabul should range between AFS 50 to 100 (\$1 or \$2, depending on where you are going) per trip, but a dedicated car and driver are recommended. For travel within Kabul, a car and driver (no English) will run \$15-\$50 per day, depending on the model of car. Some international firms employ expat drivers and security personnel that cost approximately \$400 a day or \$12,000 a month, depending on the vehicle and experience of the security personnel. Public buses are not recommended.



## Language

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Dari and Pashto are the official languages of the country. Few native Afghans speak English, but many returning expatriate Afghans speak English or German. A reliable interpreter fluent in English, Dari and Pashto may earn \$150-\$2,000 per month.

Translation of names and words from Arabic script to the Latin/Roman alphabet can have several variations. Accordingly, a company's name may appear slightly differently on different documents.

## Health

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The climate in Afghanistan is dry. Summer temperatures can reach more than 100 degrees Fahrenheit, and winter temperatures can fall as low as 20 degrees Fahrenheit with snow. Kabul is very dusty and shoes and clothes are difficult to keep clean.

Well-equipped medical facilities are few throughout Afghanistan. European and American medicines are available in limited quantities and may be expensive or difficult to locate. There is a shortage of standard medical supplies. Basic medicines manufactured in Iran, Pakistan, and India are available, but their quality can be questionable. Travelers should bring all necessary medications, both prescription and over-the-counter. A couple of western-style private clinics have opened in Kabul recently: the DK-German Medical Diagnostic Center (<http://www.medical-kabul.com>) and CURE International Hospital (ph. 0799-883-830) offer a variety of care; Americans seeking treatment should request American or Western health practitioners. American travelers may seek emergency medical services at the International Security Assistance Forces (ISAF) medical facilities in the Kabul area, but routine care is not available. The ISAF Hospital and the combined forces ISAF clinic, adjacent to Kabul International Airport, may provide medical care to American citizens who can show appropriate ID and who request emergency care, but payment must be made at the time of service in USD or Euros (credit card not accepted). Shino Zada Private Hospital located in Microrayon 4, opposite the central heating center, provides general surgery, maternity care, ambulance and pharmacy facilities 24 hours a day. Imran Clinic, across from the Ministry of Interior, has limited laboratory and x-ray facilities. Contact information for medical providers in Kabul can be found on the Embassy's website [here](#).

Afghan public hospitals should be avoided. Individuals without government licenses or even medical degrees often operate private clinics; there is no public agency that monitors their operations. Travelers will not be able to find Western-trained medical personnel in most parts of the country outside of Kabul, although there are some international aid groups temporarily providing basic medical assistance in various cities and villages. For any medical treatment, payment is required in advance. Commercial medical evacuation capability from Afghanistan is limited and safe pick-up and transport of a patient, when available, can take 30-60 hours to accomplish. Information on vaccinations and other health precautions, such as safe food and water precautions and insect bite protection, may be obtained from the Centers for Disease Control and Prevention's hotline for international travelers at 1-877-FYI-TRIP (1-877-394-8747) or via the CDC's Internet site [here](#). For information on outbreaks of infectious diseases abroad consult the World Health Organization's website [here](#). Further health information for travelers is available [here](#).

## Local Time, Business Hours, and Holidays

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Local time is GMT +4.5 hours. Afghanistan government officials observe a five and a half day workweek; Thursday afternoon and Friday are off. Business hours are typically 7:30 AM to 4:30 PM, Saturdays to Thursdays. Commercial shops keep longer but varying hours, usually from 7 AM to 11 PM. Religious Holidays follow the lunar cycle and are determined by the Islamic calendar, based on the lunar cycle and the visibility of the lunar crescent. Variable holidays include three days for Eid-ul-Qurban, three days for Eid-Al-Fitr, and one day for the Prophet's Birthday; 10th of Maharam, March 21 (Nawrooz - New Year) and August 19 (Independence Day) are fixed in the solar calendar.

## Temporary Entry of Materials and Personal Belongings

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Article 114 of the Afghan Customs Code states that temporary entry goods will be taxed at 3 percent of the monthly total customs duty. Personal belongings, luggage and samples are exempt from payment of duty if they have no commercial purposes.

## Web Resources

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Centers for Disease Control:	<a href="http://wwwn.cdc.gov/travel/destinationAfghanistan.aspx/">http://wwwn.cdc.gov/travel/destinationAfghanistan.aspx/</a>
Embassy of Afghanistan:	<a href="http://www.embassyofafghanistan.org/">http://www.embassyofafghanistan.org/</a>
State Department Travel website:	<a href="http://travel.state.gov/">http://travel.state.gov/</a>
State Department Visa website:	<a href="http://travel.state.gov/visa/">http://travel.state.gov/visa/</a>
U.S. Embassy in Afghanistan:	<a href="http://kabul.usembassy.gov/">http://kabul.usembassy.gov/</a>
U.S. Embassy's website – lawyers:	<a href="http://kabul.usembassy.gov/lol.html">http://kabul.usembassy.gov/lol.html</a>
U.S. Embassy's website – medical providers:	<a href="http://kabul.usembassy.gov/lmpa.html">http://kabul.usembassy.gov/lmpa.html</a>
World Health Organization:	<a href="http://www.who.int/ith">http://www.who.int/ith</a>

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## Chapter 9: Contacts, Market Research and Trade Events

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- [Trade Events](#)

### Contacts

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#### ***U.S. GOVERNMENT CONTACTS***

##### **U.S. Embassy Kabul**

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James B. Cunningham

##### Coordinating Director for Development and Economic Affairs

S. Ken Yamashita

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Jonathan Fritz, Economic Counselor

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Website: [http://kabul.usembassy.gov/information\\_for\\_travelers.html](http://kabul.usembassy.gov/information_for_travelers.html)

Consular Section – Visa Services

Email: [Afghanvisainfo@state.gov](mailto:Afghanvisainfo@state.gov)

Website: <http://kabul.usembassy.gov/visas.html>

**U.S. Department of Commerce**

Afghanistan Investment and Reconstruction Task Force

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Fax: +1 (202) 482-0980

Email: [AfghanInfo@trade.gov](mailto:AfghanInfo@trade.gov)

Website: <http://trade.gov/afghanistan/>

**The Advocacy Center, Afghanistan**

1401 Constitution Avenue, N.W., Rm. 3814-A

Washington, DC 20230

Tel: +1 (202) 482-3896 Main Line

Fax: +1 (202) 482-3508

Website: <http://www.export.gov/advocacy>

**U.S. Agency for International Development (USAID) - Afghanistan**

Office of Economic Growth and Infrastructure

Email: [kabulusaidinformation@usaid.gov](mailto:kabulusaidinformation@usaid.gov)

Website: <http://afghanistan.usaid.gov/en/Index.aspx>

**USAID/Washington Headquarters**

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1300 Pennsylvania Avenue, N.W.

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Website: [OAPA](http://OAPA)

**Overseas Private Investment Corporation (OPIC)**

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**Export-Import Bank of the U.S. (Ex-Im)**

Larry Walther, Director, Afghanistan  
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Washington, DC 20571  
Tel: +1 (202) 565-3540  
Website: <http://www.exim.gov>

***INTERNATIONAL FINANCIAL INSTITUTIONS CONTACTS***

**World Bank**

House 19, Street 15, Wazir Akbar Khan  
Kabul, Afghanistan  
Contact: Abdul Raouf Zia  
Tel: +93 (0) 700-280-800  
Email: [azia@worldbank.org](mailto:azia@worldbank.org)  
Website: <http://www.worldbank.org/af>

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### **American Chamber of Commerce in Afghanistan (AmCham Afghanistan)**

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Hon. Don Ritter, President & CEO

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Website: <http://www.aba.af>

## **Market Research**

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To view market research reports produced by the U.S. Commercial Service please go [here](#) and click on *Country and Industry Market Reports*.

Please note that these reports are only available to U.S. citizens and U.S. companies. Registration to the site is required, and is free.

## **Trade Events**

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Please click [here](#) for information on upcoming trade events.

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## Chapter 10: Guide to Our Services

The President's National Export Initiative aims to double exports over five years by marshaling Federal agencies to prepare U.S. companies to export successfully, connect them with trade opportunities and support them once they do have exporting opportunities.

The U.S. Commercial Service offers customized solutions to help U.S. exporters, particularly small and medium sized businesses, successfully expand exports to new markets. Our global network of trade specialists will work one-on-one with you through every step of the exporting process, helping you to:

- Target the best markets with our world-class research
- Promote your products and services to qualified buyers
- Meet the best distributors and agents for your products and services
- Overcome potential challenges or trade barriers
- Gain access to the full range of U.S. Government trade promotion agencies and their services, including export training and potential trade financing sources

To learn more about the Federal Government's trade promotion resources for new and experienced exporters, please go [here](#).

The **U.S. Commercial Service in Afghanistan** is represented by two Commercial Officers and Commercial Specialists. The office conducts targeted sector specific trade missions as well as matchmaking, due diligence and market research. The **Economic/Commercial Section of the U.S. Embassy** can assist U.S. firms seeking information about business opportunities in Afghanistan or provide advocacy. In addition, the **U.S. Department of Commerce's Afghanistan Investment and Reconstruction Task Force** is available to help U.S. firms answer questions about doing business in Afghanistan and operates a website with useful resources and a listserv of procurement notices. The **U.S. Department of Commerce's Advocacy Center** coordinates U.S. Government resources and authority that can help level the playing field on behalf of U.S. business interests as they compete against foreign firms for specific international contracts or other U.S. export opportunities. (Please see Chapter 9 for all contact information.)

U.S. exporters seeking general export information/assistance or country-specific commercial information can also contact the **U.S. Department of Commerce's Trade Information Center** at (800) USA-TRADE.

**We value your feedback on the format and contents of this report. Please send your comments and recommendations to:** [Market\\_Research\\_Feedback@trade.gov](mailto:Market_Research_Feedback@trade.gov)

To the best of our knowledge, the information contained in this report is accurate as of the date published. However, **The Department of Commerce** does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct



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